



KT&G Corporation and Subsidiaries

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

(With Independent Auditor's Review Report Thereon)

KT&G CORPORATION

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KT&G CORPORATION AND SUBSIDIARIES

Independent auditor's review report

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

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

Reviewed financial statements

We have reviewed the accompanying condensed 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, 2020, the related condensed consolidated statements of income and comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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") 1034, 'Interim Financial Reporting' 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 the 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

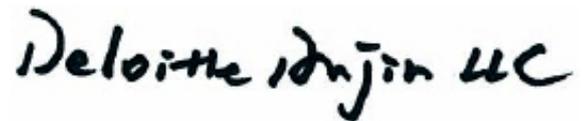
Based on our reviews and review results, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with K-IFRS 1034, 'Interim Financial Reporting'.

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Other matters

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

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

A handwritten signature in black ink that reads 'Deloitte Anjin LLC'. The signature is written in a cursive, slightly slanted style.

May 15, 2020

<p>This report is effective as of May 15, 2020, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying condensed consolidated financial statements and may result in modifications to the auditors' report.</p>
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KT&G CORPORATION AND SUBSIDIARIES
Condensed consolidated interim financial statements

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

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

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

Address of headquarters: (Road name address) 71, Beotkkot-gil, Daedeok-gu, Daejeon
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KT&G CORPORATION AND SUBSIDIARIES

Condensed consolidated interim statements of financial position

As of March 31, 2020 and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	March 31, 2020	December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	23	₩ 969,475,911,636	₩ 891,306,145,983
Current other financial assets	23,24	536,604,904,540	397,949,201,546
Current fair value through profit or loss	23	1,207,379,248,735	1,239,263,067,528
Trade and other receivables	5,22,23,24	1,016,070,543,854	1,023,385,660,122
Derivative assets	23,24	-	2,276,640,206
Inventories	6,24	2,414,288,026,687	2,447,214,219,082
Refund assets and others		2,451,464,853	3,027,268,752
Accrued tobacco excise and other taxes		270,618,097,996	291,481,567,634
Advance payments	24	103,034,868,953	83,696,244,207
Prepaid expenses		33,686,365,038	33,345,254,566
Assets held for sale	4,22,24	4,246,922,005	4,246,922,005
Total current assets		₩ 6,557,856,354,297	₩ 6,417,192,191,631
Non-current assets:			
Long-term other financial assets	23,24	₩ 10,919,765,275	₩4,480,027,000
Long-term deposits in MSA Escrow Fund	23,24	840,341,568,026	751,437,124,245
Long-term fair value through profit or loss	23	223,371,959,389	251,895,325,773
Long-term trade and other receivables	5,23	83,671,852,051	77,062,030,242
Fair value through other comprehensive income or loss	23	190,565,846,127	257,639,840,085
Investments in associates and joint ventures	4,7,22	53,853,663,997	49,393,336,819
Property, plant and equipment	8,24,25	1,704,404,641,782	1,753,357,780,790
Intangible assets	9,25	87,828,821,613	89,693,691,059
Investment properties	10,24,25	935,720,272,615	885,325,430,794
Right-of-use assets	11	45,876,990,705	45,483,777,486
Long-term advance payments	24	73,420,423,219	72,519,228,473
Long-term prepaid expenses		6,986,129,003	7,464,781,189
Deferred income tax assets		44,616,039,255	49,153,499,355
Total non-current assets		₩ 4,301,577,973,057	₩ 4,294,905,873,310
Total assets		₩10,859,434,327,354	₩10,712,098,064,941

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

KT&G CORPORATION AND SUBSIDIARIES

Condensed consolidated interim statements of financial position, continued

As of March 31, 2020 and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	March 31, 2020	December 31, 2019
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	12,23,24	₩ 26,665,623,002	₩ 27,066,108,741
Current portion of long-term borrowings	12,23,24	15,797,638,298	5,284,509,248
Trade and other payables	22,23	1,190,244,837,854	656,582,586,262
Current lease liabilities	23	18,468,267,805	18,909,138,677
Derivative liabilities	23,24	9,016,451,246	-
Advance receipts	22,24	23,772,271,054	77,028,657,918
Current refund liabilities and provisions	14,24	25,218,627,871	26,666,515,900
Current income tax liabilities		223,668,081,120	212,538,102,130
Tobacco excise and other taxes payables		555,764,709,960	576,018,441,937
Total current liabilities		₩ 2,088,616,508,210	₩ 1,600,094,060,813
Non-current liabilities:			
Long-term borrowings	12,23,24	₩ 78,736,891,148	₩90,954,077,109
Long-term trade and other payables	23,24	58,318,953,497	59,638,008,450
Long-term lease liabilities	23	24,086,023,992	24,396,626,259
Long-term advance receipts		4,366,652,584	4,154,633,329
Net defined benefit liabilities	13	99,252,422,889	91,082,736,864
Long-term refund liabilities and provisions	14,24	2,835,268,053	3,090,174,123
Deferred income tax liabilities		127,274,321,915	129,918,339,005
Non-controlling interests liabilities		2,723,992,589	2,835,710,820
Total non-current liabilities		₩ 397,594,526,667	₩ 406,070,305,959
Total liabilities		₩ 2,486,211,034,877	₩ 2,006,164,366,772
Equity:			
Ordinary shares		₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus(deficit)		(29,556,277,161)	(29,556,277,161)
Treasury shares		(318,789,449,459)	(318,789,449,459)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		5,933,412,220,822	5,671,479,866,186
Retained earnings	15	1,248,056,975,435	1,843,577,322,126
Equity attributable to owners of the Parent Company		₩ 8,316,977,008,543	₩ 8,650,565,000,598
Non-controlling interests		56,246,283,934	55,368,697,571
Total equity		₩ 8,373,223,292,477	₩ 8,705,933,698,169
Total liabilities and equity		₩10,859,434,327,354	₩10,712,098,064,941

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

KT&G CORPORATION AND SUBSIDIARIES

Condensed consolidated interim statements of comprehensive income

For the first quarter ended March 31, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	1Q/2020	1Q/2019
Sales	4,16	₩ 1,178,410,308,223	₩ 1,184,981,696,982
Cost of sales	17	(497,649,821,567)	(498,370,879,090)
Gross profit		680,760,486,656	686,610,817,892
Selling, general and administrative expenses	17	(365,746,835,004)	(338,445,963,125)
Operating profit	4	315,013,651,652	348,164,854,767
Other income	18	92,768,449,132	34,833,499,737
Other expense	18	(53,548,180,712)	(20,034,801,584)
Finance income	19,23	63,375,982,925	33,222,126,055
Finance cost	19,23	(6,531,100,520)	(7,972,922,378)
Share of net profit of associates and joint ventures	7	4,520,810,435	(469,013,121)
Profit before income tax		415,599,612,912	387,743,743,476
Income tax expense	20	(121,724,582,547)	(113,908,629,516)
Profit for the period		₩ 293,875,030,365	₩ 273,835,113,960
Other comprehensive income (loss) after income tax:			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities		₩ (266,116,908)	₩ (540,742,697)
Gain (loss) on valuation of fair value through other comprehensive income or loss		(48,789,038,819)	7,739,890,599
Capital changes in equity method	7	(43,850,361)	42,327,547
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(20,534,768,769)	20,130,267,810
Other comprehensive income after income tax		(69,633,774,857)	27,371,743,259
Total comprehensive income for the period		₩ 224,241,255,508	₩ 301,206,857,219
Profit attributable to:			
Owners of the Parent Company		₩ 293,003,640,361	₩ 273,027,495,418
Non-controlling interests		871,390,004	807,618,542
Total		₩ 293,875,030,365	₩ 273,835,113,960
Other comprehensive income for the period attributable to:			
Owners of the Parent Company		₩ 223,363,669,145	₩ 300,397,658,097
Non-controlling interests		877,586,363	809,199,122
Total		₩ 224,241,255,508	₩ 301,206,857,219
Earnings per share:			
Basic and diluted	21	₩ 2,315	₩ 2,162

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

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KT&G CORPORATION AND SUBSIDIARIES

Condensed consolidated interim statements of changes in equity

For the first quarter ended March 31, 2019

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2019	₩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
Total comprehensive income (loss) for the period:									
Profit for the period	-	-	-	-	-	273,027,495,418	273,027,495,418	807,618,542	273,835,113,960
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(542,575,319)	(542,575,319)	1,832,622	(540,742,697)
Gain (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	(252,042)	20,130,267,810
Capital changes in equity method	-	-	-	-	42,327,547	-	42,327,547	-	42,327,547
Sum of other comprehensive income (loss) for the period	-	-	-	-	27,912,737,998	(542,575,319)	27,370,162,679	1,580,580	27,371,743,259
Total comprehensive income for the period	-	-	-	-	27,912,737,998	272,484,920,099	300,397,658,097	809,199,122	301,206,857,219
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
Total transactions with owners of the Parent Company	-	-	-	-	285,966,201,122	(791,026,709,122)	(505,060,508,000)	-	(505,060,508,000)
Balance at March 31, 2019	₩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 condensed consolidated interim financial statements.”

KT&G CORPORATION AND SUBSIDIARIES
Condensed consolidated interim statements of changes in equity, continued

For the first quarter ended March 31, 2020

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Balance at January 1, 2020	₩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
Total comprehensive income (loss) for the period:	-	-	-	-	-	293,003,640,361	293,003,640,361	871,390,004	293,875,030,365
Other comprehensive income (loss) for the period:	-	-	-	-	-	(272,313,267)	(272,313,267)	6,196,359	(266,116,908)
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(48,789,038,819)	-	(48,789,038,819)	-	(48,789,038,819)
Exchange differences on translating foreign operations	-	-	-	-	(20,534,768,769)	-	(20,534,768,769)	-	(20,534,768,769)
Capital changes in equity method	-	-	-	-	(43,850,361)	-	(43,850,361)	-	(43,850,361)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(69,367,657,949)	(272,313,267)	(69,633,774,857)	6,196,359	(69,633,774,857)
Total comprehensive income (loss) for the period	-	-	-	-	(69,367,657,949)	292,731,327,094	223,363,669,145	877,586,363	224,241,255,508
Transactions with owners of the Parent Company:	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)	-	(556,951,661,200)
Dividends	-	-	-	-	-	-	-	-	-
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-	-	-
Total transactions with owners of the Parent Company	-	-	-	-	331,300,012,585	(888,251,673,785)	(556,951,661,200)	-	(556,951,661,200)
Balance at March 31, 2020	₩954,959,485,000	₩ (29,556,277,161)	₩ (318,789,449,459)	₩528,894,053,906	₩5,933,412,220,822	₩1,248,056,975,435	₩8,316,977,008,543	₩56,246,283,934	₩8,373,223,292,477

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

KT&G CORPORATION AND SUBSIDIARIES

Condensed consolidated interim statements of cash flows

For the first quarter ended March 31, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	1Q/2020	1Q/2019
Cash flows from operating activities		₩233,644,146,215	₩722,342,548,099
Cash generated from operations	25	326,585,990,064	725,627,283,220
Income taxes paid		(92,941,843,849)	(3,284,735,121)
Cash flows from investing activities		(139,202,408,279)	(212,998,215,717)
Interest received		7,671,362,342	6,346,572,848
Dividends received		5,238,982,031	4,274,267,699
Decrease in other financial assets		130,340,300,000	411,000,000,000
Decrease in current fair value through profit or loss		40,538,960,680	-
Decrease in long-term fair value through profit or loss		31,088,060,098	-
Decrease in long-term deposits in MSA Escrow Fund		31,199,204,931	-
Proceeds from disposal of property, plant and equipment		944,970,499	24,083,554
Proceeds from disposal of intangible assets		409,130,910	94,913,574
Disposal of investment properties		2,785,120,000	-
Collection of loans		3,039,729,942	2,907,890,762
Collection of guarantee deposits		16,853,991	794,865,488
Collection of finance lease receivables		108,497,999	-
Increase in other financial assets		(275,340,300,000)	(37,021,900,000)
Increase in current fair value through profit or loss		-	(502,584,157,200)
Increase in long-term fair value through profit or loss		(900,000,000)	-
Increase in fair value through other comprehensive income or loss		-	(900,000,000)
Increase in long-term deposits in MSA Escrow Fund		(46,579,971,731)	(23,465,401,339)
Acquisition of property, plant and equipment		(33,540,172,119)	(38,926,485,213)
Acquisition of intangible assets		(15,494,169,985)	(1,494,687,226)
Acquisition of investment properties		(12,698,797,475)	(30,068,909,248)
Acquisition of right-of-use assets		(31,168,900)	-
Increase in loans		(7,896,813,145)	(3,516,226,317)
Increase in guarantee deposits		(102,188,347)	(463,043,099)
Cash flows from financing activities		(8,639,862,727)	(94,356,967,535)
Interest paid		(931,098,978)	(728,021,869)
Repayment of lease liabilities		(5,000,297,349)	(4,364,394,535)
Repayment of borrowings		(36,530,124,877)	(187,867,130,205)
Capital increase with share premium		840,000	-
Increase in borrowings		33,820,818,477	98,602,579,074
Net increase in cash and cash equivalents		85,801,875,209	414,987,364,847
Cash and cash equivalents at January 1		891,306,145,983	932,969,110,015
Effect of exchange rate fluctuation on cash and cash equivalents		(7,632,109,556)	2,999,839,806
Cash and cash equivalents at March 31		₩969,475,911,636	₩1,350,956,314,668

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

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KT&G CORPORATION AND SUBSIDIARIES

Notes to the condensed consolidated interim financial statements

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

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2020, the Parent Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

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

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

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

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

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

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

1.3 Summarized Financial Information

Summarized Financial information¹⁾ for consolidated subsidiaries as of and for the first quarter ended March 31, 2020, are as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,156,364	₩206,413	₩391,072	₩55,256	₩51,589
Yungjin Pharm. Co., Ltd.	202,769	85,161	56,954	1,844	1,857
Tae-a Industry Co., Ltd.	53,791	5,612	3,825	(724)	(732)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	30,543	49,602	-	(6,107)	(5,200)
Korea Tabacos do Brasil Ltda.	1,945	116	-	(59)	(473)
KT&G Pars	390	60,457	-	(11,394)	(2,823)
KT&G Rus L.L.C.	131,464	60,379	4,365	434	(14,866)
KT&G USA Corporation	97,549	69,869	50,296	2,442	3,835
Cosmococ Co., Ltd.	49,735	35,441	16,214	382	382
Renzoluc Pte., Ltd.	123,498	29,701	-	914	(9,504)
PT KT&G Indonesia	91,535	104,419	31,391	(10,895)	(9,349)
SangSang Stay, Inc.	48,378	49,329	2,209	(2,143)	(2,143)
KT&G Global Rus L.L.C.	45,402	52,585	4,210	553	2,124
Gwacheon SangSang PFV	6,190	631	-	(228)	(228)
PT Trisakti Purwosari Makmur	200,876	72,052	18,301	(1,752)	(16,028)
PT Nusantara Indag Makmur	73	-	-	-	(8)
KGC Yebon Corporation	51,904	6,444	2,071	(50)	(87)
KGC Life & Gin Co., Ltd.	29,185	8,360	10,605	181	182
Jilin Hanzheng Ginseng Co., Ltd.	51,424	679	2,319	(247)	1,729
Cheong Kwan Jang Taiwan Corporation	21,231	18,367	9,127	33	166
Korean Red Ginseng Corp., Inc.	17,170	7,752	5,903	357	819
Korea Ginseng (China) Corp.	34,438	23,106	16,738	139	575
Korea Ginseng Corporation Japan	6,471	5,015	2,778	17	104
K&I HK Co., Ltd.	80	229	-	(34)	(42)
K&I China Co., Ltd.	₩1,100	₩3,953	₩87	₩ (367)	₩ (465)

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

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

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,127,670	₩229,308	₩1,403,681	₩147,711	₩141,540
Yungjin Pharm. Co., Ltd.	200,446	84,695	220,516	5,030	4,145
Tae-a Industry Co., Ltd.	54,946	6,035	19,091	651	228
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	32,788	46,647	12,780	(6,397)	(5,415)
Korea Tabacos do Brasil Ltda.	2,434	132	-	(186)	(182)
KT&G Pars	619	57,863	-	(14,929)	(8,120)
KT&G Rus L.L.C.	166,998	81,047	44,790	3,999	15,490
KT&G USA Corporation	63,072	39,228	155,543	3,257	3,941
Cosmococ Co., Ltd.	50,424	36,512	71,363	(14,259)	(14,928)
Renzoluc Pte., Ltd.	136,006	32,706	-	(1,864)	6,094
PT KT&G Indonesia	104,970	108,505	147,010	10,257	8,718
SangSang Stay, Inc.	52,457	51,266	22,659	(2,309)	(2,391)
KT&G Global Rus L.L.C.	51,228	60,536	34,631	(924)	(2,115)
Gwacheon SangSang PFV	6,269	482	-	(1,151)	(1,151)
PT Trisakti Purwosari Makmur ²⁾	213,266	68,414	65,872	8,092	18,218
PT Trisakti Purwosari Makmur (Previously, PT Mandiri Maha Mulia) ²⁾	-	-	25,159	2,017	4,240
PT Trisakti Purwosari Makmur (Previously, PT Sentosa Ababi Purwosari) ²⁾	-	-	17,635	2,911	(2,792)
PT Trisakti Purwosari Makmur (Previously, PT Purindo Ilufa) ²⁾	-	-	5,263	1,860	112
PT Nusantara Indag Makmur	80	-	-	(42)	(33)
KGC Yebon Corporation	53,912	8,366	12,759	(311)	(457)
KGC Life & Gin Co., Ltd.	32,708	12,065	37,360	616	435
Jilin Hanzheng Ginseng Co., Ltd.	49,774	758	15,837	(1,163)	(263)
Cheong Kwan Jang Taiwan Corporation	23,054	20,356	31,779	547	663
Korean Red Ginseng Corp., Inc.	19,974	11,375	21,441	(2,657)	(2,698)
Korea Ginseng (China) Corp.	33,823	23,066	52,099	(148)	51
Korea Ginseng Corporation Japan	7,311	5,960	11,018	17	87
K&I HK Co., Ltd.	102	209	340	(140)	(181)
K&I China Co., Ltd.	₩1,450	₩3,838	₩1,379	₩ (3,041)	₩ (3,003)

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

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

2. Significant Accounting Policies

2.1 Basis of Preparation

The condensed 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 condensed consolidated interim financial statements have been prepared in accordance with K-IFRS that are effective or early adopted as of March 31, 2020 at the end of the reporting period.

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

2.2 Changes in Accounting Policies and Disclosures

(1) Amended standards adopted by the Group

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

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

The Group has clarified the “definition of materiality” and has made amendments to K-IFRS No. 1001 and K-IFRS No. 1008 in accordance with the clarified definition. The 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.

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

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

In addition, a new selective focused testing method has been adopted whereby if a majority of the fair values of the total assets acquired are concentrated in either a single identifiable asset or a group of assets. The acquired group of assets and activities can be determined as an asset or a group of assets, rather than as a business.

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

The amendment focuses on adding an exception rule so that risk hedge accounting can be applied even when uncertainty exists due to interest rate indicator reform. The amendments assume that the interest rate indicator based on cash flows will not be changed to reform when reviewing the likelihood of an expected transaction. When performing a forward assessment, the interest rate indicator, based on the hedged items, measures and risks to be avoided, assumes that interest rate index reform will not change.

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

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

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

2.3 Accounting Policies

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

3. Critical Accounting Estimates and Assumptions

The preparation of condensed 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 used in the presentation of the condensed consolidated interim financial statements are identical to those applied in presenting the previous term consolidated financial statements.

4. Operating Segments

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

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

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

① For the first quarter ended March 31, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩687,255	₩440,112	₩86,914	₩75,479	₩1,289,760	₩ (111,350)	₩1,178,410
Intersegment sales	(78,157)	(28,929)	(3,508)	(756)	(111,350)	111,350	-
External sales	609,098	411,183	83,406	74,723	1,178,410	-	1,178,410
Operating profit	206,028	71,412	41,700	665	319,805	(4,791)	315,014

② For the first quarter ended March 31, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	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

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

<i>In millions of Korean won</i>		1Q/2020	1Q/2019
Revenue recognized at a point in time:			
Tobacco	Wholesale, retail	₩606,218	₩634,403
	Direct sales	2,880	3,015
Ginseng	Wholesale, retail	206,669	261,113
	Direct sales	204,514	150,764
Others	Wholesale, retail	71,533	67,999
	Direct sales	3,190	6,097
Subtotal		1,095,004	1,123,391
Revenue recognized over time:			
Real estate	Sales and rental	83,406	60,935
Others	Services, etc.	-	656
Subtotal		83,406	61,591
Total		₩1,178,410	₩1,184,982

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

① As of March 31, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,065,803	₩2,047,048	₩1,101,116	₩287,428	₩8,501,395	₩ (1,869,235)	₩6,632,160
Investments in associates and joint ventures	-	-	50,660	3,194	53,854	-	53,854
Assets held for sale	5,594	-	-	-	5,594	(1,347)	4,247
Subtotal	5,071,397	2,047,048	1,151,776	290,622	8,560,843	(1,870,582)	6,690,261
Unallocated assets							4,169,173
Total assets							₩10,859,434
Acquisition of non-current assets	49,633	11,832	-	2,222	63,687	(1,954)	61,733
Liabilities:							
Segment liabilities	1,492,769	178,792	631	154,648	1,826,840	(409,053)	1,417,787
Unallocated liabilities							1,068,424
Total liabilities							₩2,486,211

② As of December 31, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,080,404	₩2,159,594	₩1,035,730	₩289,638	₩8,565,366	₩ (1,891,314)	₩6,674,052
Investments in associates and joint ventures	-	-	46,110	3,283	49,393	-	49,393
Assets held for sale	4,680	-	-	-	4,680	(433)	4,247
Subtotal	5,085,084	2,159,594	1,081,840	292,921	8,619,439	(1,891,747)	6,727,692
Unallocated assets							3,984,406
Total assets							₩10,712,098
Acquisition of non-current assets	490,850	43,748	-	11,149	545,747	(32,266)	513,481
Liabilities:							
Segment liabilities	1,549,804	211,156	482	159,500	1,920,942	(419,887)	1,501,055
Unallocated liabilities							505,109
Total liabilities							₩2,006,164

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

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

<i>In millions of Korean won</i>	1Q/2020			1Q/2019		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩1,055,033	₩123,377	₩1,178,410	₩1,087,750	₩97,232	₩1,184,982
Non-current assets	4,170,554	131,024	4,301,578	3,709,770	138,876	3,848,646

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

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

5. Trade and Other Receivables

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

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Trade receivables	₩930,584	₩ -	₩941,104	₩ -
Loans	12,488	41,618	11,302	38,110
Other receivables	27,435	3,479	24,617	1,486
Guarantee deposits	40,514	38,325	40,185	37,118
Accrued income	4,599	41	5,734	24
Finance lease receivables	451	209	444	324
Total	₩1,016,071	₩83,672	₩1,023,386	₩77,062

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

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Total carrying amount	₩1,129,871	₩83,752	₩1,144,497	₩77,142
Allowances:				
Trade receivables	(113,066)	-	(120,385)	-
Other receivables	(734)	(80)	(726)	(80)
Total allowances	(113,800)	(80)	(121,111)	(80)
Net trade and other receivables	₩1,016,071	₩83,672	₩1,023,386	₩77,062

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩121,191	₩82,083
Impairment loss (reversal)	(3,515)	3,381
Write off	(211)	-
Net exchange difference, etc.	(3,585)	983
Ending balance	₩113,880	₩86,447

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

6. Inventories

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

<i>In millions of Korean won</i>	March 31, 2020			December 31, 2019		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩73,007	₩ (14,873)	₩58,134	₩66,241	₩ (14,366)	₩51,875
Finished goods	822,580	(11,667)	810,913	823,865	(8,798)	815,067
Work in progress	581,958	(1,068)	580,890	644,692	(647)	644,045
Raw materials	837,105	(2,585)	834,520	836,871	(2,577)	834,294
Supplies	34,365	-	34,365	33,257	-	33,257
By-products	7,260	-	7,260	7,131	-	7,131
Buildings under construction	7,294	-	7,294	6,378	-	6,378
Completed buildings	2,030	-	2,030	2,215	-	2,215
Sites for construction of real estate	11,017	-	11,017	10,274	-	10,274
Goods in transit	67,865	-	67,865	42,678	-	42,678
Total	₩2,444,481	₩ (30,193)	₩2,414,288	₩2,473,602	₩ (26,388)	₩2,447,214

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Cost of sales:		
Loss(reversal of loss) on valuation of inventories	₩4,149	₩ (844)
Loss on obsolescence of inventories	661	-
Total	₩4,810	₩ (844)

7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures during the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩49,393	₩83,989
Equity method gains and losses	4,521	(469)
Changes in equity method capital	(60)	42
Ending balance	₩53,854	₩83,562

8. Property, Plant and Equipment

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩1,753,358	₩1,818,788
Acquisition	28,504	38,903
Disposal/obsolescence/impairment loss	(891)	(446)
Depreciation	(37,051)	(33,949)
Reclassification, etc.	(39,515)	4,234
Ending balance	₩1,704,405	₩1,827,530

9. Intangible Assets

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩89,694	₩71,954
Acquisition	15,494	1,495
Disposal/obsolescence/impairment loss	(495)	(92)
Depreciation	(2,809)	(607)
Reclassification, etc.	(14,055)	(5,997)
Ending balance	₩87,829	₩66,753

10. Investment property

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩885,325	₩495,049
Acquisition	12,699	30,069
Disposal/obsolescence/impairment loss	(2,929)	-
Depreciation	(4,431)	(4,021)
Reclassification, etc.	45,056	(1,529)
Ending balance	₩935,720	₩519,568

11. Right-of-use assets

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩45,484	₩ -
Changes in accounting policies	-	51,298
Acquisition	5,855	687
Disposal	(195)	-
Depreciation	(5,663)	(5,241)
Net exchange rate differences, etc.	396	684
Ending balance	₩45,877	₩47,428

12. Borrowings

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

<i>In millions of Korean won</i>	Lender	Annual interest rate (%)	March 31, 2020	December 31, 2019
Borrowings	KEB Hana Bank	2.18 ~ 3.64	₩19,100	₩17,200
	KEB Hana Bank Bahrain branch	2.53	6,720	6,359
	KDB Industrial Bank	2.73	-	2,500
	Subtotal		25,820	26,059
Customer credit contracts ¹⁾	NH Nonghyup Bank, etc.	4.14, 6.02	846	1,007
Total			₩26,666	₩27,066

¹⁾ The Group provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables, and receives related bonds from financial institutions and recognizes them as short-term borrowings.

(2) Long-term borrowings as of March 31, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate (%)	March 31, 2020	December 31, 2019
Borrowings	NH Nonghyup Bank	2020.06.10~	-	₩47,361	₩47,015
		2024.06.10			
	Kookmin Bank	2023.09.11	2.19~2.74	7,584	8,125
Redeemable convertible preferred shares ¹⁾	KDB Industrial Bank	2020.05.19~	2.33~2.90	4,250	5,759
		2021.08.19			
Total				94,535	96,239
Consolidated statements of financial position:					
Current				15,798	5,285
Non-current				78,737	90,954
Total				₩94,535	₩96,239

¹⁾ Redeemable convertible preferred shares as of March 31, 2020 are as follows:

Issuing company	Renzoluc Pte, Ltd.
Issue date	September 14, 2012
Issued value	₩35,340 million
Carrying amount	₩35,340 million
Maturity	The convertible instrument will mature 10 years from the date of establishment of QCP 2011 Corporate Partnership Private 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.

(3) As discussed in Note 24-3 to the condensed consolidated interim financial statements, the Group is providing collateral for the above borrowings.

13. Employee Benefits

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Defined benefit plans:		
Current service cost	₩13,135	₩12,011
Net interest on net defined benefit liabilities	493	463
Subtotal	13,628	12,474
Defined contribution plan:		
Contributions recognized as expense	2,269	2,333
Other long-term employee benefits:		
Current service cost, etc.	1,013	788
Termination benefits:		
Voluntary retirements, etc.	2,589	3,785
Total	₩19,499	₩19,380

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

<i>In millions of Korean won</i>	March 31, 2020	December 31, 2019
Present value of defined benefit obligation	₩548,667	₩542,699
Fair value of plan assets	(449,415)	(451,616)
Total	₩99,252	₩91,083

14. Refund Liabilities and Provisions

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

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩3,038	₩ -	₩3,694	₩ -
Provision for refund	10,876	1,266	11,790	1,584
Provision for site restoration	10,003	1,134	9,680	1,013
Provision for financial guarantee	-	434	-	492
Provision for others	1,302	1	1,503	1
Total	₩25,219	₩2,835	₩26,667	₩3,090

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

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,694	₩630	₩ (1,286)	₩3,038
Provision for refund	13,374	1,207	(2,439)	12,142
Provision for site restoration	10,693	497	(53)	11,137
Provision for financial guarantee	492	18	(76)	434
Provision for others	1,504	-	(201)	1,303
Total	₩29,757	₩2,352	₩ (4,055)	₩28,054

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

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,497	₩1,897	₩ (2,047)	₩3,347
Provision for refund	9,948	2,632	(275)	12,305
Provision for site restoration	4,387	147	(18)	4,516
Provision for financial guarantee	700	27	(57)	670
Provision for others	414	-	(69)	345
Total	₩18,946	₩4,703	₩ (2,466)	₩21,183

15. Retained Earnings

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩1,843,577	₩1,612,794
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Profit for the period	293,875	273,835
- Less: Non-controlling interests	(877)	(808)
Re-measurements of net defined benefit liabilities(after tax)	(266)	(541)
- Less: Non-controlling interests(after tax)	-	(1)
Ending balance	₩1,248,057	₩1,094,252

16. Real Estate Sales Contract

(1) Real estate sales contracts under construction as of March 31, 2020, are as follows:

<i>In millions of Korean won</i>	Construction period	Total sales value	Total sales contract value
Suwon hwaseo park prugio(Apartment)	February 2018 - August 2021	₩1,188,870	₩1,187,006
Suwon hwaseo park prugio(Efficiency apartment)		112,060	106,762
Dae-gu central Xi ¹⁾	-	3,818	1,292
Total		₩1,304,748	₩1,295,060

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

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

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

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

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

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

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

17. Operating Expenses

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Changes in inventories	₩32,926	₩78,063
Raw materials used and merchandise purchased	232,466	246,746
Salaries	162,477	144,213
Retirement and termination benefits	18,486	18,592
Depreciation	47,145	43,211
Amortization	2,809	607
Employee welfare	20,038	18,022
Advertising	55,104	55,375
Commissions	168,259	154,988
Other expenses	123,687	77,000
Total	₩863,397	₩836,817

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Salaries	₩110,040	₩97,009
Retirement and termination benefits	12,991	12,489
Employee welfare	13,588	12,147
Travel expenses	2,864	4,401
Communication cost	1,364	1,351
Utilities	3,153	2,990
Taxes and dues	3,449	2,308
Supplies	1,547	1,078
Rent	3,693	3,744
Depreciation	15,109	16,018
Amortization	2,766	562
Repairs and maintenance	1,218	781
Vehicles	1,701	1,521
Insurance	1,106	922
Commissions	112,529	98,415
Freight and custody	14,357	12,003
Conferences	848	1,216
Advertising	55,092	55,351
Education and training	1,241	1,453
Prizes and rewards	580	449
Cooperation	269	277
Research and development	9,914	8,580
Impairment loss (reversal of impairment loss) on trade receivables	(3,672)	3,381
Total	₩365,747	₩338,446

18. Other Income and Expense

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Gain on foreign currency transaction	₩52,947	₩ 2,984
Gain on foreign currency translation	32,523	29,312
Gain on disposal of property, plant and equipment	584	22
Gain on disposal of intangible assets	-	3
Gain on lease contract adjustments	82	-
Miscellaneous income	6,632	2,512
Total	₩92,768	₩34,833

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Loss on foreign currency transaction	₩ 5,389	₩ 1,653
Loss on foreign currency translation	25,632	10,972
Loss on valuation of derivatives	16,829	5,198
Loss on impairment of other receivables	157	-
Loss on disposal of property, plant and equipment	532	9
Loss on impairment of property, plant and equipment	-	436
Loss on disposal of intangible assets	86	-
Loss on disposal of investment properties	144	-
Donations	1,106	781
Loss on lease contract adjustments	19	-
Miscellaneous loss	3,654	986
Total	₩53,548	₩20,035

19. Finance Income and Cost

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Finance income:		
Interest income ¹⁾	₩ 7,369	₩ 6,651
Dividend income	11,633	10,339
Gain on valuation of fair value through profit or loss	15,071	16,232
Gain on disposal of long-term deposits in MSA Escrow Fund	29,303	-
Total finance income	63,376	33,222
Finance cost:		
Interest expense	(1,780)	(2,153)
Loss on valuation of fair value through profit or loss	(4,751)	(5,820)
Total finance cost	(6,531)	(7,973)
Net finance income	₩56,845	₩25,249

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

20. Income Tax Expense

The income tax expense was calculated by adjusting the adjustments recognized in the current quarter and the previous quarter for current tax, deferred tax expense(income) due to the occurrence and disappearance of temporary differences, and income tax expense(income) related to items that are recognized outside profit or loss. The average effective tax rates for the current quarter and the previous quarter are 29.29% and 29.38%, respectively.

21. EPS

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

	1Q/2020	1Q/2019
Profit for the period attributable to owners of the Parent Company	₩ 292,997 million	₩ 273,027 million
Weighted-average number of ordinary shares outstanding	126,579,923 shares	126,265,127 shares
Basic and diluted EPS	₩ 2,315	₩ 2,162

22. Related Parties

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

	March 31, 2020	December 31, 2019
Associates	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	LitePharmTech Co., Ltd. ¹⁾	LitePharmTech Co., Ltd. ¹⁾
	Yong In Jung Sim Co., Ltd. ²⁾	Yong In Jung Sim Co., Ltd.
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ³⁾	KB Gimpo Logistics CR REIT Co., Ltd. ³⁾
	KORAMCO Private REIT 50 Fund ⁴⁾	KORAMCO Private REIT 50 Fund ⁴⁾
	KORAMCO Europe Private REIT 3-2 Fund ⁴⁾	KORAMCO Europe Private REIT 3-2 Fund ⁴⁾
	Starfield Suwon	Starfield Suwon

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

²⁾ Due to other shareholder party's additional investment in Yong In Jung Sim Co., Ltd in accordance with the shareholders' agreement during the first quarter ended March 31, 2020, there has been a change in the Group's holding in the invested company.

³⁾ It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the Group and the Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting rights of the 76% shares held by the collective investment business entity are restricted from having an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act.

⁴⁾ It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

(2) There have been no transactions carried out by the Group with related parties for the first quarters ended March 31, 2020 and 2019.

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

<i>In millions of Korean won</i>	March 31, 2020		December 31, 2019	
	Receivables	Payables	Receivables	Payables
Joint ventures				
KB Gimpo Logistics CR REIT Co., Ltd.	₩ -	₩ -	₩ 99	₩ -
KORAMCO Private REIT 50 Fund	40	-	523	-
Starfield Suwon	-	16,020	-	16,020
Total	₩ 40	₩16,020	₩ 622	₩16,020

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

<i>In millions of Korean won</i>	1Q/2020		1Q/2019	
	Investment (recovery)	Repayment of funds	Investment (recovery)	Repayment of funds
Associates				
LSK Global Pharma Services Co., Ltd.	₩ -	₩ -	₩ -	₩150

(5) There is no payment guarantee provided between or among the related parties.

(6) As of March 31, 2020, the Group has a land contract with its joint venture, Starfield Suwon, and has received a down payment of ₩16,020 million from the total ₩160,200 million. The Group has classified the down payment as 'advanced receipts' as of March 31, 2020. Ownership of the land will be transferred upon the payment of the balance, which will be on the date of commencement of the construction work(see Note 24 (4)).

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

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

23. 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 financial statements of the subsidiaries. The finance 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 it periodically analyses 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.

(1) Market risk

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

① Currency risk

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

② Price risk

The Group is exposed to other price risks in relation to its listed equity instruments in financial assets at fair value through other comprehensive income or loss such that the fair value of the financial instruments or the future cash flows will change due to factors such as changes in market price. The management of the 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, lease liabilities and trade payables and other payables. 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 interest bearing liabilities of the Group as of March 31, 2020, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is not important.

(2) Credit risk

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

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of March 31, 2020, and December 31, 2019 are as follows:

<i>In millions of Korean won</i>	March 31, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand) ¹⁾	₩523,742	₩435,576
Other financial assets	547,525	402,429
Fair value through profit or loss ¹⁾	1,876,173	1,946,558
Trade and other receivables	1,099,743	1,100,448
Long-term deposits in MSA Escrow Fund	840,342	751,437
Derivative assets	-	2,277
Total	₩4,887,525	₩4,638,725

¹⁾ Of the cash equivalents as of March 31, 2020, ₩445,422 million (as of December 31, 2019: ₩455,400 million) of the money market trust is included in the financial assets measured at fair value through profit or loss.

(3) Liquidity risk

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

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

<i>In millions of Korean won</i>	March 31, 2020	December 31, 2019
Financial assets:		
Fair value through profit or loss ¹⁾	₩1,876,173	₩1,946,558
Fair value through other comprehensive income or loss	190,566	257,640
Derivative assets	-	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents ¹⁾	524,054	435,906
- Other financial assets	547,525	402,429
- Trade and other receivables	1,099,743	1,100,448
- Long-term deposits in MSA Escrow Fund	840,342	751,437
Subtotal	3,011,664	2,690,220
Total financial assets	₩5,078,403	₩4,896,695
Financial liabilities:		
Derivative liabilities	₩9,016	₩ -
Financial liabilities measured at amortized cost		
- Short-term borrowings	26,666	27,066
- Current portion of long-term borrowings	15,798	5,285
- Long-term borrowings	78,737	90,954
- Trade and other payables	911,629	353,881
- Lease liabilities	42,554	43,306
Subtotal	1,075,384	520,492
Total financial liabilities	₩1,084,400	₩520,492

¹⁾ Of the cash equivalents as of March 31, 2020, ₩445,422 million (as of December 31, 2019: ₩455,400 million) of the money market trust is included in the financial assets measured at fair value through profit or loss.

(5) When measuring the fair value of an asset or a liability, the 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, 2020, and December 31, 2019, are as follows:

① As of March 31, 2020

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹⁾	₩1,876,173	₩ -	₩1,652,802	₩223,371
Fair value through other comprehensive income or loss	190,566	142,034	-	48,532
Derivative liabilities	9,016	-	9,016	-
Total	₩2,075,755	₩142,034	₩1,661,818	₩271,903

¹⁾ Of the cash equivalents as of March 31, 2020, ₩445,422 million of the money market trust is included in the financial assets measured at fair value through profit or loss.

② As of December 31, 2019

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹⁾	₩1,946,558	₩ -	₩1,694,663	₩251,895
Fair value through other comprehensive income or loss	257,640	209,108	-	48,532
Derivative assets	2,277	-	2,277	-
Total	₩2,206,475	₩209,108	₩1,696,940	₩300,427

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

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

As of March 31, 2020, and December 31, 2019, the fair value of investment trust's equity securities classified as at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the first quarters ended March 31, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Beginning balance	₩300,427	₩262,026
Acquisition	900	900
Disposal	(31,088)	-
Changes in fair value	1,664	(1,656)
Ending balance	₩271,903	₩261,270

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

① For the first quarter ended March 31, 2020

<i>In millions of Korean won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 7,369	₩ -	₩ 7,369
Dividend income	4,134	7,499	-	-	-	11,633
Gain or loss on valuation	10,320	-	(16,829)	-	-	(6,509)
Interest expense	-	-	-	-	(1,780)	(1,780)
Reversal of impairment loss	-	-	-	3,515	-	3,515
Gain or loss on disposal of long-term deposits	-	-	-	29,303	-	29,303
Gain or loss on lease contract adjustments	-	-	-	-	63	63
Total	₩14,454	₩ 7,499	₩ (16,829)	₩40,187	₩ (1,717)	₩ 43,594
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (67,074)	₩ -	₩ -	₩ -	₩ (67,074)

② For the first quarter ended March 31, 2019

<i>In millions of Korean won</i>	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩6,651	₩ -	₩6,651
Dividend income	3,336	7,002	-	-	-	10,338
Gain or loss on valuation	10,413	-	(5,198)	-	-	5,215
Interest expense	-	-	-	-	(2,153)	(2,153)
Impairment loss	-	-	-	(3,381)	-	(3,381)
Total	₩13,749	₩7,002	₩ (5,198)	₩3,270	₩ (2,153)	₩16,670
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩10,680	₩ -	₩ -	₩ -	₩10,680

24. Contingent Liabilities and Commitments

(1) Litigation cases

As of March 31, 2020, the Group has 26 cases of pending litigations under progress where the Group is the defendant and the litigation value is ₩72,546 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of March 31, 2020, on the condensed consolidated interim financial statements of the Group.

(2) Commitments with financial institutions

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

In millions of Korean won or thousands of US dollars

Type	Financial institutions	Currency	Limit
Opening import letter of credits	KEB Hana Bank and one other	USD	120,300
Derivatives trading ¹⁾	KEB Hana Bank and three others	USD	227,700
Group loans	KEB Hana Bank	KRW	300,000
Consumer financing arrangement	KEB Hana Bank	KRW	7,000
Others	KDB Development Bank and six others	KRW	196,876
	KEB Hana Bank Bahrain branch	USD	6,600

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

(3) Payment guarantees and collateral

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

In millions of Korean won or thousands of US dollars

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	948,351	Housing distribution guarantee, etc.
Korea Trade Insurance Corporation	USD	83,755	Export guarantee insurance
Seoul Guarantee Insurance	KRW	4,177	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	16,174	Escrow deposit guarantee
Liberty Mutual	USD	183	Payment guarantees on license bond
KEB Hana Bank	USD	2,000	Performance guarantee related to exporting reconstituted tobacco leaves
NH Nonghyup Bank	KRW	3,000	Collateral on local tax payment

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

Execution of the payment guarantee as of March 31, 2020, is as follows:

In thousands of US dollar

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

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

<i>In millions of Korean won</i>	Guarantee user	Currency	Limit	Execution amount
Loan guarantee for the intermediate payment	Shinhan Bank	KRW	79,400	30,336
	KEB Hana Bank	KRW	60,000	24,792
	Suhyup Bank	KRW	9,480	4,527
Payment guarantee for deductibles (Mokpo branch and five other branches)	Korea Special Sales Association	KRW	1,346	-
Total		KRW	150,226	59,655

The Group provides payment guarantees to financial institutions in accordance with the consumer financial agreement in connection with retail sales receivables and receives related bonds from financial institutions and recognizes them as short-term borrowings(see Note 12).

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

<i>In millions of Korean won</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩23,558	₩3,390	₩3,390	Korea Technology Finance Corporation(“KOTEC”), etc.	Establishment of leasehold rights to leasehold deposits
	91,424	3,488	4,186	Wonju City-Hall	Establishment of right to collateral security through a government grant
	58,524	13,684	52,000	KEB Hana Bank, etc.	Short-term, current portion of long-term borrowings and long-term borrowings
Property, plant and equipment	17,408	13,000	24,000	KEB Hana Bank	Short-term borrowings
Investment property	32,247	2,833	15,500	Korea Development Bank (“KDB”)	Current portion of long-term borrowings
Investment property	2,773	1,417			Long-term borrowings
Investment property	369,495	21,117	22,127	MetLife Insurance, etc.	Establishment of right to collateral security and leasehold for leasehold deposits
Other financial assets	8,540	-	8,540	Korea Land & Housing Corporation	Establishment of a pledge to guarantee real estate development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩604,566	₩59,526	₩130,340		

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

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

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

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

<i>In millions of Korean won</i>		March 31, 2020
	Establishment of a pledge to guarantee real estate development	₩ 8,540
	Establishment of a pledge for leasehold deposits	597
Other financial assets	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000
	Government subsidies	415
	Security deposits for checking accounts, etc.	1,826
Total		₩111,378

(4) Others

Each year, the Group deposits a proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement (“MSA”) under the Escrow Statute of the US government. The MSA Escrow Fund is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking which is considered to be the Group’s illegal act. The unused portion of the fund will be refunded to the Group after 25 years from the date of each annual funding. The Group has recognized ₩840,342 million as of March 31, 2020 (₩751,437 million as of December 31, 2019), as long-term deposits in MSA Escrow Fund and they are composed of T-Note and demand deposits.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩63,806 million as of March 31, 2020 (₩62,630 million as of December 31, 2019) and ₩39,617 million as of March 31, 2020 (₩23,945 million as of December 31, 2019), respectively.

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

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

The Group is currently operating Starfield Suwon Corporation after establishing the joint venture under 50:50 ratio with Shinsaegae Property. The disposal of such share is limited for five years from the approval for use of the multi-shopping mall. In the event that the Group or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

As of March 31, 2020, the Group has a land contract with Starfield Suwon, a joint venture (land contract value: ₩160,200 million), and the ownership of the land will be transited upon the payment of balance when the construction for Starfield Suwon begins.

As of March 31, 2020, 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 of nomination in the supply of logistics facilities developed by Yongin Jungsim. Also, the Group has the right to transfer shares to SpaceG if it does not receive the sale proceeds.

In October 2019, in preparation of the second phase of liquid e-cigarette safety management countermeasures jointly with the relevant departments, the Ministry of Health and Welfare recommended discontinuing the use of liquid e-cigarettes until the safety management system improvement and hazard verification are complete. Accordingly, CVS (convenience store) companies (the Group's suppliers), have announced that they will stop selling or placing new orders for two of the Group's products (SiiD Tundra and SiiD Toba) and are currently discussing sales returns for the products with the Group. As of March 31, 2020, the Group has recognized, in relation to the above event, inventory valuation loss allowance of ₩2,206 million and refund liabilities of ₩2,401 million.

In relation to the products that the Group has manufactured and exported to the United States, the Coalition Against Korean Cigarettes (a coalition of Cheyenne International and Xcaliber International) has submitted a petition to the United States Department of Commerce requesting an investigation into export dumping and industrial damages. The products subject to the investigation are 4th tier cigarettes (cigarettes produced by small manufacturers) and the period in question is 1 year for export dumping (October 2018 to September 2019) and 3 years and 9 months for industrial damages (January 2016 to September 2019). In relation to the above, the process of investigation and adjudication by the United States Department of Commerce is due to continue until 2021. It is not possible for the Group to rationally predict the impact the results of this investigation will have on its condensed consolidated interim financial statements.

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

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

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

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

25. Cash Flows

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Profit for the period	₩293,875	₩273,835
Adjustments:		
Employee welfare	787	688
Retirement benefits	12,917	12,474
Loss (reversal) on valuation or obsolescence of inventories	4,810	(844)
Depreciation	47,145	43,211
Amortization	2,809	607
Impairment loss (reversal) on trade and other receivables	(3,515)	3,381
Loss on foreign currency translation	25,632	10,972
Loss on valuation of derivatives	16,829	5,198
Loss on disposal of property, plant and equipment	532	9
Loss on impairment of property, plant and equipment	-	436
Loss on disposal of intangible assets	86	-
Loss on disposal of investment properties	144	-
Other expenses, etc.	583	8,116
Finance cost	6,531	7,973
Income tax expense	121,725	113,909
Gain on foreign currency translation	(32,523)	(29,312)
Gain on disposal of property, plant and equipment	(584)	(22)
Gain on disposal of intangible assets	-	(3)
Other income, etc.	(48,421)	(10)
Finance income	(63,376)	(33,222)
Share of loss/gain of associates and joint ventures	(4,521)	469
Changes in working capital:		
Decrease(increase) in trade and other receivables	2,360	(36,368)
Increase in derivatives	(5,536)	(569)
Decrease(increase) in inventories	(12,341)	78,537
Decrease in accrued tobacco excise and other taxes	16,897	70,609
Decrease(increase) in advance payments	26,781	(23,031)
Decrease(increase) in prepaid expenses	1,109	(2,273)
Decrease in trade and other payables	(16,431)	(14,436)
Decrease in advance receipts	(52,294)	(42,275)
Increase(decrease) in tobacco excise and other taxes payable	(14,582)	273,388
Increase(decrease) in net defined benefit liabilities	(842)	4,180
Cash generated from operations	₩326,586	₩725,627

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

<i>In millions of Korean won</i>	1Q/2020	1Q/2019
Reclassification of property, plant and equipment to investment properties	₩45,056	₩ (1,529)
Reclassification of retained earnings to dividends payable	556,952	505,061

26. Subsequent Events

Korea Ginseng Corporation, a subsidiary of the Parent Company, has made a decision to dispose of the land it possesses in the Pyeongchang area, through the board of directors meeting on April 8, 2020. The book value of the land for sale is ₩49,700 million.