



KT&G Corporation

Review Report on Separate Interim Financial Statements

**First Half of the 34th Fiscal Year
From January 1, 2020, to June 30, 2020**

**First Half of the 33rd Fiscal Year
From January 1, 2019, to June 30, 2019**

(With Independent Auditor's Review Report Thereon)

KT&G CORPORATION

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KT&G CORPORATION

Independent auditor's review report

English Translation of Independent Auditor's Review Report Originally Issued in Korean on August 14, 2020

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

Reviewed financial statements

We have reviewed the accompanying condensed separate financial statements of KT&G Corporation (the "Company"). The condensed separate financial statements consist of the condensed separate statement of financial position as of June 30, 2020, the related condensed separate statements of income and comprehensive income for the three months and six months ended June 30, 2020 and 2019, changes in equity and cash flows for the six months ended June 30, 2020 and 2019 all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Separate financial statements

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

Auditors' responsibility

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

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

Review results

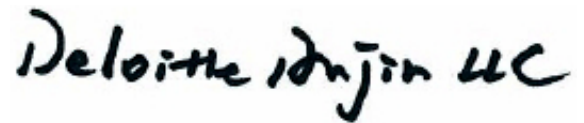
Based on our reviews and review results, nothing has come to our attention that causes us to believe that the accompanying condensed separate financial statements are not presented fairly, in all material respects, in accordance with K-IFRS 1034, 'Interim Financial Reporting'.

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Other matters

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

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



August 13, 2020

This report is effective as of August 13, 2020, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying condensed separate financial statements and may result in modifications to the auditors' report.

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

First Half of the 34th Fiscal Year
from January 1, 2020, to June 30, 2020

First Half of the 33rd Fiscal Year
from January 1, 2019, to June 30, 2019

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

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KT&G CORPORATION

Separate interim statements of financial position

As of June 30, 2020, and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	June 30, 2020	December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	24	₩ 876,634,630,678	₩ 656,775,412,332
Current other financial assets	24,25	410,000,000,000	377,340,300,000
Current fair value through profit or loss	24	1,128,082,400,340	1,239,263,067,528
Trade and other receivables	5,17,23,24,25	849,588,833,449	780,159,697,780
Derivative assets	24,25	4,249,744,857	2,276,640,206
Inventories	6,25	962,413,846,800	968,142,957,525
Refund assets and others		3,735,268,825	2,384,435,650
Accrued tobacco excise and other taxes		122,188,450,134	225,429,495,611
Advance payments		80,328,371,594	48,969,303,465
Prepaid expenses		15,960,924,399	8,771,908,090
Assets held for sale	23,25	4,246,922,005	4,679,521,682
Total current assets		₩ 4,457,429,393,081	₩ 4,314,192,739,869
Non-current assets:			
Long-term other financial assets	24,25	₩ 9,137,220,000	₩ 2,796,920,000
Long-term deposits in MSA Escrow Fund	24,25	884,186,385,546	751,437,124,245
Long-term fair value through profit or loss	24	222,104,787,699	248,925,690,016
Long-term trade and other receivables	5,23,24	116,006,502,079	111,083,161,207
Fair value through other comprehensive income or loss	23,24,25,26	182,338,806,949	240,455,780,085
Investments in associates and joint ventures	7,23,25,26	40,338,431,053	52,330,010,000
Investments in subsidiaries	8,23,25	1,153,085,699,124	1,158,224,182,559
Property, plant and equipment	9,23,25,26	1,142,260,069,854	1,116,325,197,480
Intangible assets	10	57,544,402,174	58,861,433,763
Investment properties	11,25,26	1,035,784,840,822	999,105,309,200
Right-of-use assets	12,23	28,401,909,068	18,544,646,402
Long-term advance payments		9,510,956,440	9,510,956,440
Long-term prepaid expenses		6,971,779,223	6,745,851,182
Deferred income tax assets		47,841,666,885	24,238,637,057
Total non-current assets		₩ 4,935,513,456,916	₩ 4,798,584,899,636
Total assets		₩ 9,392,942,849,997	₩ 9,112,777,639,505

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

KT&G CORPORATION

Separate interim statements of financial position, continued

As of June 30, 2020, and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	<i>June 30, 2020</i>	<i>December 31, 2019</i>
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	13,24,25	₩ 971,295,220	₩ 1,006,814,107
Trade and other payables	23,24,25,26	720,953,646,989	451,587,160,453
Current lease liabilities	23,24	8,193,295,602	6,989,816,066
Derivative liabilities	24,25	476,592,949	-
Advance receipts	17,23,25	84,448,879,741	68,025,054,995
Current refund liabilities and provisions	15,25	15,694,136,534	15,051,873,544
Current income tax liabilities		199,642,322,373	175,146,660,143
Tobacco excise and other taxes payables	26	543,515,520,722	533,705,648,200
Total current liabilities		₩ 1,573,895,690,130	₩ 1,251,513,027,508
Non-current liabilities:			
Long-term trade and other payables	23,24,25	₩ 41,992,343,313	₩ 45,102,011,956
Long-term lease liabilities	23,24	19,678,327,541	11,137,985,884
Long-term advance receipts	23	1,813,483,332	1,989,936,579
Net defined benefit liabilities	14,23	42,124,553,108	22,099,032,492
Long-term refund liabilities and provisions	15,25	744,141,628	851,992,675
Total non-current liabilities		₩ 106,352,848,922	₩ 81,180,959,586
Total liabilities		₩ 1,680,248,539,052	₩ 1,332,693,987,094
Equity:			
Ordinary shares		₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(318,789,449,459)	(318,789,449,459)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,011,625,935,333	5,723,185,728,271
Retained earnings	16	532,422,125,257	888,251,673,785
Total equity		₩ 7,712,694,310,945	₩ 7,780,083,652,411
Total liabilities and equity		₩ 9,392,942,849,997	₩ 9,112,777,639,505

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

KT&G CORPORATION

Separate interim statements of comprehensive income

For the three months and six months ended June 30, 2020 and 2019

In Korean won	Notes	2020		2019	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Sales	4,23	₩908,092,653,424	₩1,569,387,407,196	₩812,615,657,556	₩1,471,286,357,180
Manufacture of tobacco	25	696,164,942,278	1,248,048,051,540	677,745,240,591	1,256,713,925,177
Real estate	17	193,237,043,418	279,640,036,198	114,955,776,315	178,857,576,797
Exports of leaf tobacco and others		18,690,667,728	41,699,319,458	19,914,640,650	35,714,855,206
Cost of sales	18,23	(359,542,390,726)	(606,674,622,171)	(310,247,315,504)	(561,546,934,956)
Manufacture of tobacco		(261,859,957,296)	(458,132,536,761)	(249,317,574,355)	(463,948,914,737)
Real estate		(86,334,518,546)	(121,742,758,377)	(46,217,914,738)	(70,685,553,342)
Exports of leaf tobacco and others		(11,347,914,884)	(26,799,327,033)	(14,711,826,411)	(26,912,466,877)
Gross profit		548,550,262,698	962,712,785,025	502,368,342,052	909,739,422,224
Selling, general and administrative expense	18,23	(178,672,003,597)	(342,956,615,765)	(162,461,611,954)	(317,154,184,995)
Operating profit		369,878,259,101	619,756,169,260	339,906,730,098	592,585,237,229
Other income	19,23	26,549,060,639	90,425,617,385	51,537,388,538	78,779,978,504
Other expense	19,23	(44,278,544,845)	(60,057,723,706)	(21,195,629,066)	(32,385,283,585)
Finance income	20,23,24	25,558,546,267	87,592,938,143	22,610,419,040	54,501,999,538
Finance cost	20,23,24	(1,690,269,810)	(6,890,669,913)	(2,056,728,263)	(8,383,869,029)
Profit before income tax		376,017,051,352	730,826,331,169	390,802,180,347	685,098,062,657
Income tax expense	21	(101,166,812,064)	(195,217,698,207)	(104,628,537,100)	(184,844,705,382)
Profit for the period		₩274,850,239,288	₩ 535,608,632,962	₩286,173,643,247	₩ 500,253,357,275
Other comprehensive income (loss) after income tax:		₩ (688,285,467)	₩ (46,046,313,228)	₩ (6,661,707,495)	₩ 655,032,518
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities		(2,933,335,563)	(3,186,507,705)	(12,783,324,376)	(13,269,995,362)
Gain (loss) on valuation of fair value through other comprehensive income or loss		2,245,050,096	(42,859,805,523)	6,121,616,881	13,925,027,880
Total comprehensive income for the period		₩274,161,953,821	₩489,562,319,734	₩279,511,935,752	₩500,908,389,793
Earnings per share:					
Basic and diluted	22	₩ 2,171	₩ 4,231	₩ 2,266	₩ 3,962

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

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KT&G CORPORATION

Separate interim statements of changes in equity

For the six months ended June 30, 2019

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2019	₩954,959,485,000	₩ 3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,430,034,290,488	₩791,026,709,122	₩7,365,221,293,281
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	500,253,357,275	500,253,357,275
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-		(13,269,995,362)	(13,269,995,362)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	13,925,027,880	-	13,925,027,880
Sum of other comprehensive income (loss) for the period	-	-	-	-	13,925,027,880	(13,269,995,362)	655,032,518
Total comprehensive income for the period	-	-	-	-	13,925,027,880	486,983,361,913	500,908,389,793
Transactions with owners of the Company:							
Dividends	-	-	-	-		(505,060,508,000)	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-
Total transactions with owners of the Company	-	-	-	-	285,966,201,122	(791,026,709,122)	(505,060,508,000)
Balance at June 30, 2019	₩954,959,485,000	₩3,582,160,908	₩ (328,157,286,128)	₩513,775,933,891	₩5,729,925,519,490	₩486,983,361,913	₩7,361,069,175,074

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

KT&G CORPORATION

Separate interim statements of changes in equity, continued

For the six months ended June 30, 2020

<i>In Korean won</i>	Ordinary shares	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance at January 1, 2020	₩954,959,485,000	₩3,582,160,908	₩ (318,789,449,459)	₩528,894,053,906	₩5,723,185,728,271	₩888,251,673,785	₩7,780,083,652,411
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-		535,608,632,962	535,608,632,962
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-		(3,186,507,705)	(3,186,507,705)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(42,859,805,523)	-	(42,859,805,523)
Sum of other comprehensive income (loss) for the period	-	-	-	-	(42,859,805,523)	(3,186,507,705)	(46,046,313,228)
Total comprehensive income (loss) for the period	-	-	-	-	(42,859,805,523)	532,422,125,257	489,562,319,734
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-
Total transactions with owners of the Company	-	-	-	-	331,300,012,585	(888,251,673,785)	(556,951,661,200)
Balance at June 30, 2020	₩954,959,485,000	₩3,582,160,908	₩ (318,789,449,459)	₩528,894,053,906	₩6,011,625,935,333	₩532,422,125,257	₩7,712,694,310,945

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

KT&G CORPORATION

Separate interim statements of cash flows

For the six months ended June 30, 2020 and 2019

<i>In Korean won</i>	<i>Notes</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities		₩816,973,644,872	₩978,259,225,731
Cash generated from operations	26	993,832,867,726	1,151,706,162,106
Income taxes paid		(176,859,222,854)	(173,446,936,375)
Cash flows from investing activities		(35,560,559,036)	(301,716,781,148)
Interest received		10,564,688,605	10,031,050,540
Dividends received		17,447,887,768	15,402,948,878
Decrease in other financial assets		277,340,300,000	390,000,000,000
Decrease in current fair value through profit or loss		133,719,186,343	-
Decrease in long-term fair value through profit or loss		32,721,528,152	-
Decrease in long-term deposits in MSA Escrow Fund		30,190,725,542	-
Disposal of property, plant and equipment		5,319,562,521	4,275,087,344
Disposal of intangible assets		1,000,000,000	97,979,683
Disposal of investment properties		2,785,120,000	-
Disposal of assets held for sale		460,368,199	29,977,251,000
Disposal of investments in associates and joint ventures		21,193,630,212	24,650,929,551
Collection of loans		6,779,812,392	6,952,022,789
Collection of guarantee deposits		-	75,000,000
Increase in other financial assets		(316,340,300,000)	(110,000,000,000)
Increase in current fair value through profit or loss		-	(462,332,756,367)
Increase in long-term fair value through profit or loss		(3,512,500,000)	(18,500,000,000)
Increase in long-term deposits in MSA Escrow Fund		(106,560,291,182)	(48,734,791,687)
Acquisition of property, plant and equipment		(69,135,885,830)	(92,523,792,664)
Acquisition of intangible assets		(16,697,802,831)	(2,455,591,023)
Acquisition of investment properties		(52,188,596,395)	(38,759,952,318)
Acquisition of assets held for sale		(18,197,470)	(6,382,433,376)
Acquisition of investment in joint ventures		(8,000,000,000)	-
Increase in loans		(2,629,678,407)	(3,489,733,498)
Increase in guarantee deposits		(116,655)	-
Cash flows from financing activities		(560,996,763,673)	(508,664,234,896)
Dividends paid		(556,951,661,200)	(505,060,508,000)
Interest paid		(255,559,803)	(509,987,146)
Repayment of lease liabilities		(3,789,542,670)	(3,093,739,750)
Net increase in cash and cash equivalents		220,416,322,163	167,878,209,687
Cash and cash equivalents at January 1		656,775,412,332	748,123,323,519
Effect of exchange rate fluctuation on cash and cash equivalents		(557,103,817)	(730,328,512)
Cash and cash equivalents at June 30		₩876,634,630,678	₩915,271,204,694

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

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KT&G CORPORATION

Notes to the Separate interim financial statements

As of June 30, 2020, and December 31, 2019, and for the six months ended June 30, 2020 and 2019

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2020, the Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 123 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Company’s major shareholders as of June 30, 2020, are as follows:

	Number of shares	Percentage of ownership (%)
National Pension Service	17,671,419	12.87
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,075,159	2.24
Treasury shares	10,712,574	7.80
Others	96,322,860	70.16
Total	137,292,497	100.00

2. Significant Accounting Policies

2.1 Basis of Preparation

The separate interim financial statements of the Company have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 ‘Interim Financial Reporting.’ These separate interim financial statements have been prepared in accordance with K-IFRS that are effective or early adopted as of June 30, 2020 at the end of the reporting period.

The separate interim financial statements of the Company were authorized for issue by the board of directors’ meeting held on August 6, 2020.

2.2 Changes in Accounting Policies and Disclosures

(1) Amended standards adopted by the Company

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

- 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 Company has clarified the “definition of materiality” and has made amendments to K-IFRS No. 1001 and K-IFRS No. 1008 in accordance with the clarified definition. The Company has taken into consideration the following for the determination of materiality: the possibility of omission of material information, the risk of material misstatement; and the effects of immaterial information. The Company has also taken into consideration the nature of information users when making decisions on what information is disclosed.

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

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

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

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

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

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

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

There are no material effects of the above mentioned amendments made to K-IFRSs on the separate interim financial statements of the Company as of June 30, 2020.

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

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

2.3 Accounting Policies

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

3. Critical Accounting Estimates and Assumptions

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

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

4. Operating Segments

The Company 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.

			2020		2019	
			Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
<i>In millions of Korean won</i>						
Revenue recognized at a point in time:						
Manufacture and sales of tobacco	Korea	Wholesale, retail	₩454,598	₩875,887	₩464,233	₩885,473
		Direct sales	32	65	28	64
	Export	Wholesale, retail	224,144	341,037	189,105	320,459
Sales of tobacco product	Korea	Wholesale, retail	16,775	29,636	23,451	49,009
		Direct sales	614	1,421	803	1,583
	Export	Wholesale, retail	2	2	126	126
Manufacture and sale of semifinished tobacco products	Export	Direct sales	12,559	31,298	16,497	28,433
Manufacture and sale of tobacco raw materials	Export	Direct sales	2,052	3,396	1,634	3,155
Others	Korea	Direct sales	756	1,773	489	1,178
	Export		2,161	3,282	1,294	2,949
Subtotal			713,693	1,287,797	697,660	1,292,429
Revenue recognized over time:						
Sale and rental of real estate	Korea	Sales	176,296	244,240	98,324	145,661
	Korea	Rental	16,941	35,400	16,632	33,196
Others	Export	Royalty	1,163	1,950	-	-
Subtotal			194,400	281,590	114,956	178,857
Total			₩908,093	₩1,569,387	₩812,616	₩1,471,286

5. Trade and Other Receivables

(1) Trade and other receivables as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	June 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Trade receivables	₩788,639	₩ 22,583	₩710,365	₩ 25,345
Loans	10,033	49,674	10,116	51,536
Other receivables	24,975	11,511	28,862	8,617
Guarantee deposits	21,962	27,936	24,599	21,395
Accrued income	3,980	4,303	6,218	4,190
Total	₩849,589	₩116,007	₩780,160	₩111,083

(2) Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	June 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Total carrying amount	₩930,579	₩192,653	₩877,023	₩180,731
Allowances:				
Trade receivables	(80,287)	(40,906)	(96,165)	(33,163)
Other receivables	(703)	(35,740)	(698)	(36,485)
Total allowances	(80,990)	(76,646)	(96,863)	(69,648)
Net trade and other receivables	₩849,589	₩116,007	₩780,160	₩111,083

(3) Changes in allowance for doubtful accounts in relation to trade and other receivables for the six months ended June 30, 2020, and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩166,511	₩143,536
Impairment loss (reversal)	(8,875)	(4,644)
Ending balance	₩157,636	₩138,892

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

6. Inventories

(1) Inventories as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	June 30, 2020			December 31, 2019		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩32,428	₩ (18,912)	₩13,516	₩33,336	₩ (12,913)	₩20,423
Finished goods	98,317	(5,359)	92,958	103,025	(5,465)	97,560
Work in progress	13,236	-	13,236	11,929	-	11,929
Raw materials	708,496	-	708,496	739,464	-	739,464
Supplies	35,516	-	35,516	30,437	-	30,437
By-products	6,638	-	6,638	7,029	-	7,029
Buildings under construction	8,971	-	8,971	6,178	-	6,178
Completed buildings	1,490	-	1,490	2,215	-	2,215
Sites for construction of real estate	9,768	-	9,768	10,274	-	10,274
Goods in transit	71,825	-	71,825	42,634	-	42,634
Total	₩986,685	₩ (24,271)	₩962,414	₩986,521	₩ (18,378)	₩968,143

(2) The amounts of loss (reversal of loss) on valuation of inventories and loss on obsolescence of inventories recognized for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Cost of sales:				
Loss(reversal of loss) on valuation of inventories	₩4,321	₩5,893	₩ 345	₩ (28)
Loss on obsolescence of inventories	770	1,013	1,295	2,319
Total	₩5,091	₩6,906	₩ 1,640	₩ 2,291

7. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>		Location	Principal Operation	June 30, 2020		December 31, 2019	
				Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Associates	LSK Global Pharma Services Co., Ltd.	Korea	Researching and developing medicine	23.15	₩ -	23.15	₩ -
	Lite Pharm Tech, Inc. ¹⁾	Korea	Manufacturing medical supplies	16.75	1,830	16.75	1,830
	Yong In Jung Sim Co., Ltd. ²⁾	Korea	Developing real estate	9.52	-	22.22	1,000
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ³⁾	Korea	Renting real estate	-	-	12.00	3,000
	KORAMCO Private REIT 50 Fund ⁴⁾	Korea	Renting real estate	84.21	8	84.21	16,000
	KORAMCO Europe Private REIT 3-2 Fund ⁴⁾	Korea	Renting real estate	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	Developing and Renting real estate	50.00	20,000	50.00	12,000
Total					₩40,338		₩52,330

- 1) It is classified as an investment in associates even though the Company's holdings in the invested company are less than 20%. Since it has the right to participate in the invested company's board of directors meeting according to the shareholder's agreement, the Company has judged that it has significant influence over the invested company.
- 2) Due to Yong In Jung Sim Co., Ltd.'s capital increase with share premium through dilutive secondary offerings during the six months ended June 30, 2020, the Company no longer has significant influence in the invested company. The Company's holding in the invested company has therefore been reclassified from investment in associates to fair value through other comprehensive income or loss.
- 3) It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the Company and Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting rights of 76% shares held by the collective investment business entity restricted from having an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act and according to the liquidation procedure, the Company was allocated a portion of the remaining assets during the six months ended June 30, 2020.
- 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.

According to the liquidation procedure of JR REIT 5, 8 Co., Ltd. the Company has been allocated a portion of the remaining assets and a ₩9,051 million gain on disposal of investments in associates was recognized during the six months ended June 30, 2019.

According to the liquidation procedure of KB Gimpo Logistics CR REIT Co., Ltd., the Company has been allocated a portion of the remaining assets and a ₩2,203 million gain on disposal of investment in joint ventures was recognized through the partial disposal of its investment in KORAMCO Private REIT 50 Fund during the six months ended June 30, 2020.

The Company participated in Starfield Suwon Inc.'s rights offering to existing shareholders and acquired 160,000 equity securities for ₩8,000 million during the six months ended June 30, 2020.

8. Investments in subsidiaries

(1) Investments in subsidiaries as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Location	Principal operation	June 30, 2020		December 31, 2019	
			Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industry Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99	-	99.99	1,414
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	79,670	100.00	79,670
KT&G USA Corporation	USA	Selling tobaccos	100.00	4,913	100.00	4,913
Cosmocos Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. (*)	Singapore	Holding Company	100.00	148,834	100.00	148,834
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,240	99.99	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00	-	100.00	3,724
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	1,082	100.00	1,082
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
Total				₩1,153,086		₩1,158,224

(*) The percentage of ownership does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of June 30, 2020.

For the year ended December 31, 2019, the Company has made a capital contribution in kind of its 100%(book value : ₩45,982 million) equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

(2) Impairment

The Company is conducting a review of the signs of impairment on its investment in subsidiaries and, if any, situations that impairment seems necessary occurs, the Company estimates the recoverable amount and performs an impairment test.

The table below shows the results of impairment tests for investments in subsidiaries where there have been signs of impairment. The signs of impairment are that the carrying amount of a subsidiary's net assets is lower than the carrying amount of the Company's investments in subsidiaries, due to accumulation of operating losses for the six months ended June 30, 2020 and 2019.

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩1,414	₩5,727	Fair value
Cosmocos Co., Ltd.	-	5,022	Fair value
SangSang Stay, Inc.	3,724	2,144	Value in use (As on June 30, 2019: Fair value)
Total	₩5,138	₩12,893	

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

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

9. Property, Plant and Equipment

Changes in property, plant and equipment for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩1,116,325	₩1,200,907
Acquisition	65,340	85,105
Disposal/obsolescence/impairment loss	(3,872)	(1,559)
Depreciation	(45,492)	(41,894)
Reclassification, etc.	9,959	(72,416)
Ending balance	₩1,142,260	₩1,170,143

10. Intangible Assets

Changes in intangible assets for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩58,861	₩31,329
Acquisition	16,750	2,456
Disposal/obsolescence/impairment loss	(1,067)	(96)
Amortization	(2,960)	(211)
Reclassification, etc.	(14,040)	6,263
Ending balance	₩57,544	₩39,741

11. Investment property

Changes in investment property for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩999,105	₩606,679
Acquisition	52,189	38,760
Disposal/obsolescence/impairment loss	(2,929)	-
Depreciation	(10,870)	(8,039)
Reclassification, etc.	(1,710)	62,598
Ending balance	₩1,035,785	₩699,998

12. Right-of-use assets

Changes in right-of-use assets for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩18,545	₩ -
Changes in accounting policies	-	18,241
Acquisition	15,215	2,214
Disposal	(779)	-
Depreciation	(4,579)	(3,775)
Ending balance	₩28,402	₩16,680

13. Borrowings

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail trade receivables and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. Details of the short-term borrowings as of June 30, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Annual interest rate(%)	June 30, 2020	December 31, 2019
Nonghyup Bank	CD Annual Percentage Yield (91 days)+4.5	₩725	₩ 763
HanaCard	CD Annual Percentage Yield (91 days)+2.5	246	244
Total		₩971	₩1,007

14. Employee Benefits

(1) Profit or loss recognized related to employee benefits for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Defined benefit plans:				
Current service cost	₩7,724	₩15,449	₩7,261	₩14,521
Net interest on net defined benefit liabilities	101	201	199	398
Subtotal	7,825	15,650	7,460	14,919
Defined contribution plan:				
Contributions recognized as expense	960	2,796	1,046	3,010
Other long-term employee benefits:				
Current service cost, etc.	583	1,345	598	1,196
Termination benefits:				
Voluntary retirements, etc.	-	2,295	-	3,782
Total	₩9,368	₩22,086	₩9,104	₩22,907

(2) Net defined benefit liabilities as of June 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	June 30, 2020	December 31, 2019
Present value of defined benefit obligation	₩ 367,538	₩ 352,428
Fair value of plan assets	(325,413)	(330,329)
Total	₩ 42,125	₩ 22,099

15. Refund Liabilities and Provisions

(1) Refund liabilities and provisions as of June 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	June 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,978	₩ -	₩ 3,694	₩ -
Refund liabilities	2,484	274	4,758	265
Provision for site restoration	11,232	95	6,600	95
Provision for financial guarantee	-	375	-	492
Total	₩ 15,694	₩ 744	₩ 15,052	₩ 852

(2) Changes in refund liabilities and provisions for the six months ended June 30, 2020, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩ 803	₩ (2,519)	₩ 1,978
Refund liabilities	5,023	276	(2,541)	2,758
Provision for site restoration	6,695	8,204	(3,572)	11,327
Provision for financial guarantee	492	-	(117)	375
Total	₩ 15,904	₩ 9,283	₩ (8,749)	₩ 16,438

Changes in refund liabilities and provisions for the six months ended June 30, 2019, are as follows:

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,497	₩ 7,286	₩ (3,082)	₩ 7,701
Refund liabilities	3,139	3,772	(150)	6,761
Provision for site restoration	104	21	-	125
Provision for financial guarantee	700	-	(89)	611
Total	₩ 7,440	₩ 11,079	₩ (3,321)	₩ 15,198

16. Retained Earnings

Changes in retained earnings for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩888,252	₩791,027
Profit for the period	535,609	500,253
Re-measurements of net defined benefit liabilities(after tax)	(3,187)	(13,270)
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Ending balance	₩532,422	₩486,983

17. Real Estate Sales Contract

(1) Ongoing real estate sales contracts as of June 30, 2020 and 2019, are as follows:

① For the six months ended June 30, 2020

In millions of Korean won

Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value(cumulative)	Revenue (period) ¹⁾	Revenue (cumulative) ²⁾	Cost
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	55.15	₩1,188,870	₩1,187,006	₩654,666	₩220,365	₩271,581
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	54.60	112,060	106,762	58,297	19,613	35,071
Suwon hwaseo prugio briel	June 2020	September 2023	0.53	791,481	634,175	3,360	3,360	1,488
Total				₩2,092,411	₩1,927,943	₩716,323	₩243,338	₩308,140

¹⁾ Excludes sales revenue for Dae-gu central Xi of ₩902 million for the six months ended June 30, 2020 (construction has been completed as of June 30, 2020, but resale is underway due to cancellation of the sales contract).

²⁾ Excludes cumulative costs of ₩3,229 million for common infrastructure.

② For the six months ended June 30, 2019

In millions of Korean won

Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value(cumulative)	Revenue (period) ^(*)	Revenue (cumulative)	Cost
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	20.69	₩1,188,870	₩1,187,006	₩245,544	₩132,955	₩100,464
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	20.52	112,060	106,762	21,912	11,985	13,142
Total				₩1,300,930	₩1,293,768	₩267,456	₩144,940	₩113,606

^(*) Excludes sales revenue for Dae-gu central Xi of ₩721 million for the six months ended June 30, 2019 (construction has been completed as of June 30, 2019, but resale is underway due to cancellation of the sales contract).

(2) Receivables and payables for on-going sales contracts as of June 30, 2020, and December 31, 2019, are as follows:

① As of June 30, 2020

In millions of Korean won

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio(Apartment)	₩654,666	₩600,233	₩54,433	₩ -
Suwon hwaseo park prugio(Efficiency apartment)	58,297	33,753	24,544	-
Suwon hwaseo prugio briel	3,360	63,717	-	60,357
Total	₩716,323	₩697,703	₩78,977	₩60,357

② As of June 30, 2019

In millions of Korean won

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio(Apartment)	₩434,301	₩480,041	₩ -	₩45,740
Suwon hwaseo park prugio(Efficiency apartment)	38,684	33,542	5,142	-
Total	₩472,985	₩513,583	₩5,142	₩45,740

(3) No material changes in estimated total contract revenues and total contract costs have occurred during the six months ended June 30, 2020. Estimated total contract revenue and total contract cost of the ongoing sales contracts are based on the circumstances that have occurred till June 30, 2020, and can be subject to change in the future.

18. Operating Expenses

(1) Expenses, classified by nature, incurred for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Changes in inventories	₩ 36,850	₩ 5,729	₩ 19,548	₩ 26,501
Raw materials and etc. used and merchandise purchased	195,715	357,112	104,554	271,218
Salaries	86,516	184,963	72,769	161,498
Retirement and termination benefits	8,785	20,741	8,506	21,711
Depreciation	31,020	60,941	27,410	53,708
Amortization	1,468	2,960	191	211
Employee welfare	11,380	22,905	9,711	20,300
Advertising	20,796	42,552	19,888	42,834
Commissions	52,377	93,004	27,442	61,072
Other expenses	93,307	158,724	182,690	219,648
Total	₩538,214	₩949,631	₩472,709	₩878,701

(2) Selling, general and administrative expenses for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Salaries	₩ 58,276	₩126,052	₩ 56,796	₩118,461
Retirement and termination benefits	6,216	14,949	6,006	15,397
Employee welfare	7,841	15,869	7,739	15,172
Travel expenses	597	1,877	2,607	4,782
Communication cost	714	1,376	761	1,377
Utilities	1,877	4,922	2,039	4,932
Taxes and dues	21,610	22,803	19,936	21,024
Supplies	681	1,502	410	865
Rent	1,158	2,729	1,071	3,153
Depreciation	9,656	18,735	9,737	19,269
Amortization	1,466	2,957	191	211
Repairs and maintenance	1,786	2,570	1,022	1,517
Vehicles	790	1,669	920	1,763
Insurance	55	492	18	508
Commissions	41,736	72,378	25,775	50,089
Freight and custody	2,670	4,869	2,761	4,968
Conferences	619	1,210	834	1,677
Advertising	20,754	42,498	19,864	42,787
Education and training	865	1,821	1,382	2,280

Prizes and rewards	294	789	440	839
Research and development	5,916	10,518	5,028	8,468
Impairment loss (reversal of impairment loss) on trade receivables	(6,905)	(9,628)	(2,875)	(2,385)
Total	₩178,672	₩342,957	₩162,462	₩317,154

19. Other Income and Expense

(1) Other income for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Gain on foreign currency transaction	₩12,360	₩62,853	₩ 9,056	₩10,591
Gain on foreign currency translation	-	6,722	16,066	41,211
Gain on valuation of derivatives	5,566	5,566	4,053	1,110
Reversal of impairment loss on other receivables	-	937	702	2,323
Gain on disposal of property, plant and equipment	-	610	2,051	2,051
Gain on disposal of intangible assets	-	-	-	3
Gain on lease contract adjustments	77	89	-	-
Gain on disposal of assets held for sale	2,263	2,263	375	375
Gain on disposal of investments in associates and joint ventures	2,203	2,203	9,051	9,051
Miscellaneous income	4,080	9,183	10,183	12,065
Total	₩26,549	₩90,426	₩51,537	₩78,780

(2) Other expense for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Loss on foreign currency transaction	₩ 5,731	₩10,068	₩ 2,412	₩ 3,092
Loss on foreign currency translation	29,450	21,172	773	988
Loss on valuation of derivatives	944	17,773	8,988	11,244
Loss on impairment of other receivables	1,892	1,690	-	64
Loss on disposal of property, plant and equipment	1,168	1,592	32	32
Loss on impairment of property, plant and equipment	-	-	-	436
Loss on disposal of intangible assets	26	67	-	-
Loss on disposal of investment properties	-	144	-	-
Loss on disposal of assets held for sale	-	1	-	-
Loss on impairment of investments in subsidiaries	3,725	5,138	6,329	12,893
Donations	1,336	2,384	1,751	2,287
Miscellaneous loss	7	29	911	1,349
Total	₩44,279	₩60,058	₩21,196	₩32,385

20. Finance Income and Cost

Finance income and cost for the three months and six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Finance income:				
Interest income ^(*)	₩ 3,915	₩10,027	₩ 4,695	₩10,183
Dividends income	5,800	17,349	5,338	15,509
Gain on valuation of fair value through profit or loss	15,844	30,914	12,578	28,810
Gain on disposal of long-term deposits in MSA Escrow Fund	-	29,303	-	-
Total finance income	₩25,559	₩87,593	₩22,611	₩54,502
Finance cost:				
Interest expense	₩ 452	₩ 904	₩ 585	₩ 1,093
Loss on valuation of fair value through profit or loss	1,238	5,987	1,472	7,291
Total finance cost	1,690	6,891	2,057	8,384
Net finance income	₩23,869	₩80,702	₩20,554	₩46,118

^(*) The interest income is from financial assets measured at amortized cost.

21. Income Tax Expense

The income tax expense was calculated by making the adjustments for the following: adjustments related to current tax expense for past periods that were recognized during the six months ended June 30, 2020 and 2019, respectively; 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 six months ended June 30, 2020 and 2019, are 26.71% and 26.98%, respectively.

22. EPS

EPS and accounting profit for the three months and six months ended June 30, 2020 and 2019, are as follows:

	2020		2019	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Profit for the period attributable to owners of the Company (in millions of Korean won)	274,850	535,609	286,174	500,253
Weighted-average number of ordinary shares outstanding (shares)	126,579,923	126,579,923	126,265,127	126,265,127
Basic and diluted EPS (in Korean won)	2,171	4,231	2,266	3,962

23. Related Parties

(1) Parent and subsidiary relationships and related companies as of June 30, 2020, and December 31, 2019, are as follows:

	Notes	Location	June 30, 2020			December 31, 2019		
			Parent(%)	Subsidiary(%)	Total	Parent(%)	Subsidiary(%)	Total
Subsidiaries								
Korea Ginseng Corporation		Korea	100.00	-	100.00	100.00	-	100.00
Yungjin Pharm. Co., Ltd.		Korea	52.45	-	52.45	52.45	-	52.45
Tae-a Industry Co., Ltd.		Korea	100.00	-	100.00	100.00	-	100.00
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		Turkey	99.99	-	99.99	99.99	-	99.99
Korea Tabacos do Brasil Ltda.		Brazil	99.99	-	99.99	99.99	-	99.99
KT&G Pars		Iran	99.99	-	99.99	99.99	-	99.99
KT&G Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
KT&G USA Corporation		USA	100.00	-	100.00	100.00	-	100.00
Cosmococ Co., Ltd.		Korea	98.56	-	98.56	98.56	-	98.56
Renzoluc Pte., Ltd.	(*1)	Singapore	100.00	-	100.00	100.00	-	100.00
PT KT&G Indonesia		Indonesia	99.99	-	99.99	99.99	-	99.99
SangSang Stay, Inc.		Korea	100.00	-	100.00	100.00	-	100.00
KT&G Global Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
Gwacheon Sangsang PFV		Korea	51.00	-	51.00	51.00	-	51.00
K&I HK Co., Ltd.		HongKong	-	98.56	98.56	-	98.56	98.56
K&I China Co., Ltd.		China	-	98.56	98.56	-	98.56	98.56
KGC Yebon Corporation	(*2)	Korea	-	100.00	100.00	-	100.00	100.00
KGC Life & Gin Co., Ltd.		Korea	-	100.00	100.00	-	100.00	100.00
Jilin Hanzheng Ginseng Co., Ltd.		China	-	100.00	100.00	-	100.00	100.00
Cheong Kwan Jang Taiwan Corporation		Taiwan	-	100.00	100.00	-	100.00	100.00
Korean Red Ginseng Corp., Inc.		USA	-	100.00	100.00	-	100.00	100.00
Korea Ginseng (China) Corp.		China	-	100.00	100.00	-	100.00	100.00
Korea Ginseng Corporation Japan		Japan	-	100.00	100.00	-	100.00	100.00
PT Trisakti Purwosari Makmur	(*3)	Indonesia	-	99.99	99.99	-	99.99	99.99
PT Nusantara Indah Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
Associates								
LSK Global Pharma Services Co., Ltd.		Korea	23.15	-	23.15	23.15	-	23.15
Lite Pharm Tech, Inc.	(*4)	Korea	16.75	-	16.75	16.75	-	16.75
Yong In Jung Sim Co., Ltd.	(*5)	Korea	9.52	-	9.52	22.22	-	22.22
Joint ventures								
KB Gimpo Logistics CR REIT Co., Ltd.	(*6)	Korea	-	-	-	12.00	-	12.00
KORAMCO Private REIT 50 Fund	(*7)	Korea	84.21	-	84.21	84.21	-	84.21
KORAMCO Europe Private REIT 3-2 Fund	(*7)	Korea	51.35	-	51.35	51.35	-	51.35
Starfield Suwon Inc.		Korea	50.00	-	50.00	50.00	-	50.00

(*1) The percentage of ownership does not include convertible preferred shares, but will be 88.60% if preferred shares are included as of June 30, 2020.

(*2) For the year ended December 31, 2019, the Company has made a capital contribution in kind of its 100% equity holdings in KGC Yebon Corporation to its subsidiary, Korea Ginseng Corporation.

(*3) For the year ended December 31, 2019, the Company has merged its four manufacturing corporations in Indonesia (PT Trisakti Purwosari Makmur, PT Mandiri Maha Mulia, PT Sentosa Anabi Purowosari, PT Purindo Ilufa) into one, with its second-tier subsidiary PT Trisakti Purwosari Makmur being the remaining corporation after the merger.

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

(^{*5}) Due to Yong In Jung Sim Co., Ltd's capital increase with share premium through dilutive secondary offerings during the six months ended June 30, 2020, the Company no longer has significant influence in the invested company. The Company's holding in the invested company has therefore been reclassified from investment in associates to fair value through other comprehensive income or loss and it has been excluded from the Company's related parties as of June 30, 2020.

(^{*6}) It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the Company and Korea Tobacco and Ginseng Benefit Association, holding 12% shares each, as the voting rights of 76% shares held by the collective investment business entity restricted from having an impact on a resolution of the investee by the Financial Investment Services and Capital Markets Act. The Company has since liquidated its holdings in the invested company and therefore it has been excluded from the Company's related parties as of June 30, 2020.

(^{*7}) It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

(2) The Company carries out transactions with related parties such as sales of goods and services. The details of transactions with related parties for the three months and six months ended June 30, 2020 and 2019 are as follows:

① Sales and other income

<i>In millions of Korean won</i>		2020		2019	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Subsidiaries	Korea Ginseng Corporation	₩ 2,037	₩ 4,049	₩ 1,961	₩ 3,809
	Yungjin Pharm. Co., Ltd.	100	155	65	105
	Tae-a Industry Co., Ltd.	98	193	169	172
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ^(*)	2,273	6,166	3,685	4,541
	Korea Tabacos do Brasil Ltda.	1	2	-	1
	KT&G Rus L.L.C. ^(*)	5,644	15,556	7,971	11,804
	KT&G USA Corporation	44,700	84,008	27,193	41,733
	Cosmococ Co., Ltd.	47	55	22	31
	PT KT&G Indonesia ^(*)	334	593	265	513
	SangSang Stay, Inc.	1,355	2,684	1,545	3,064
	KT&G Global Rus L.L.C.	15	15	-	-
	KGC Yebon Corporation	6	10	6	11
	KGC Life & Gin Co., Ltd.	23	43	23	47
	PT Trisakti Purwosari Makmur ^(*)	2,761	5,540	3,460	7,620
Associates	JR REIT 5 Co., Ltd. ^(*)	₩ -	₩ -	₩ 130	₩ 130
	JR REIT 8 Co., Ltd. ^(*)	-	-	108	108
	JR REIT 10 Co., Ltd. ^(*)	-	-	292	292
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	613	613	591	591
Total		₩60,007	₩119,682	₩47,486	₩74,572

(^{*1}) These figures exclude impairment loss (reversal) on receivable for related parties which is ₩7,022 million for the six months ended June 30, 2020 (₩(3,495) million for the six months ended June 30, 2019).

(^{*2}) According to the liquidation procedure for these equity investments, the Company has been allocated a portion of their remaining assets during the year ended December 31, 2019.

② Purchases and other expenses

<i>In millions of Korean won</i>		2020		2019	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Subsidiaries	Korea Ginseng Corporation	₩ 268	₩ 750	₩ 272	₩1,078
	Yungjin Pharm. Co., Ltd.	3	3	1	211
	Tae-A Industry Co., Ltd.	5,013	8,843	3,926	7,327
	Cosmococ Co., Ltd.	75	320	71	545
	SangSang Stay, Inc.	25	31	4	13
	KGC Yebon Corporation	29	65	54	107
	KGC Life & Gin Co., Ltd.	3	3	3	4
Total		₩5,416	₩10,015	₩4,331	₩9,285

(3) Account balances of receivables and payables with related companies as of June 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>		June 30, 2020		December 31, 2019	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 96	₩ 1,906	₩ 608	₩ 1,898
	Yungjin Pharm. Co., Ltd.	24	58	175	58
	Tae-a Industry Co., Ltd.	-	6,305	-	4,420
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ^(*)	45,775	-	39,797	-
	Korea Tabacos do Brasil Ltda.	111	-	109	-
	KT&G Pars ^(*)	44,525	-	44,525	-
	KT&G Rus L.L.C. ^(*)	46,742	-	65,474	-
	KT&G USA Corporation	57,885	300	16,350	290
	Cosmococ Co., Ltd.	5	2	33	2
	PT KT&G Indonesia ^(*)	30,724	-	31,204	-
	SangSang Stay, Inc.	1,939	-	-	-
	KT&G Global Rus L.L.C.	15	-	-	-
	KGC Yebon Corporation	-	9,995	-	-
	KGC Life & Gin Co., Ltd.	-	135	-	120
	PT Trisakti Purwosari Makmur ^(*)	23,863	-	21,626	-
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	₩ -	₩ -	₩ 99	₩ -
	KORAMCO Private REIT 50 Fund	-	-	523	-
	Starfield Suwon Inc.	-	16,020	-	16,020
Total		₩251,704	₩34,721	₩220,523	₩22,808

^(*) These figures are gross amounts before the deduction of allowance for doubtful accounts. Allowance for doubtful accounts as of June 30, 2020 and December 31, 2019, were ₩80,620 million and ₩73,598 million, respectively.

(4) Transactions of purchase and sales of property, plant and equipment (including assets held for sale) and right-of-use assets with related parties, for the six months ended June 30, 2020 and 2019, are as follows:

		Six months ended June 30, 2020			Six months ended June 30, 2019		
		Right-of-use assets purchase	Property, plant and equipment sales	Sale of assets held for sale	Property, plant and equipment sales	Sale of assets held for sale	
<i>In millions of Korean won</i>							
Subsidiaries	Tae-A Industry Co., Ltd.	₩ -	₩ -	₩ 432	₩ -	₩29,977	
	KGC Yebon Corporation	10,162	-	-	-	-	
	PT Trisakti Purwosari Makmur	-	102	3,610	-	-	
	PT Trisakti Purwosari Makmur (Previously PT Sentosa Ababi Purwosari)	-	-	-	47	-	
Total		₩10,162	₩102	₩4,042	₩47	₩29,977	

(5) Fund transactions with related parties for the six months ended June 30, 2020 and 2019, are as follows:

		Six months ended June 30, 2020			Six months ended June 30, 2019		
		Equity investment	Repayment of lease liabilities	Equity recovery ^(*)	Collection of loans	Equity recovery ^(*)	
<i>In millions of Korean won</i>							
Subsidiaries	KGC Yebon Corporation	₩ -	₩167	₩ -	₩ -	₩ -	-
Associates	LSK Global Pharma Services Co., Ltd.	-	-	-	150	-	-
	JR REIT 5 Co., Ltd. ^(*)	-	-	-	-	11,125	-
	JR REIT 8 Co., Ltd. ^(*)	-	-	-	-	13,526	-
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ^(*)	-	-	3,356	-	-	-
	KORAMCO Private REIT 50 Fund ^(*)	-	-	17,838	-	-	-
	Starfield Suwon Inc.	8,000	-	-	-	-	-
Total		₩8,000	₩167	₩21,194	₩150	₩24,651	

^(*) According to the liquidation procedure for these equity investments, the Company has been allocated a portion of their remaining assets during the six months ended June 30, 2020 and 2019.

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

(7) As of June 30, 2020, the Company is being provided with a payment guarantee from the Federal Insurance Company up to USD 25,000 thousand in relation to import clearance for KT&G USA Corporation. There is a recourse obligation for the Company up to the executed amount of the guarantee (see Note 25 (3)).

(8) As of June 30, 2020, the Company has a land contract with its joint venture, Starfield Suwon Inc., and has classified the land as 'assets held for sale'(book value: ₩4,247 million). The Company has also received a down payment of ₩16,020 million from the total land sales value of ₩160,200 million and has classified the down payment as 'advanced receipts' as of June 30, 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 25 (4)).

(9) The Company has a contract with Gwacheon Sangsang PFV, a subsidiary company, to purchase the knowledge-based industrial site for the development of Gwacheon Knowledge and Information Town at the time the Company's internal management decision is completed(see Note 25 (4)).

(10) Key management personnel compensation for the six months ended June 30, 2020 and 2019, are summarized as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Short-term and long-term employee benefits	₩10,945	₩7,640
Retirement benefits	1,067	956
Total	₩12,012	₩8,596

24. Risk Management and Fair Value of Financial Instruments

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

(1) Market risk

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

① Currency risk

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

② Price risk

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

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Company as of June 30, 2020, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is not important.

(2) Credit risk

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

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2020, and December 31, 2019 are as follows:

<i>In millions of Korean won</i>	June 30, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand) ^(*)	₩ 247,316	₩ 202,192
Other financial assets	419,137	380,137
Fair value through profit or loss ^(*)	1,979,368	1,942,584
Trade and other receivables	965,596	891,243
Long-term deposits in MSA Escrow Fund	884,186	751,437
Derivative assets	4,250	2,277
Total	₩ 4,499,853	₩ 4,169,870

^(*) As of June 30, 2020, money market trust worth ₩629,181 million (as of December 31, 2019: ₩454,395 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(3) Liquidity risk

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

(4) The carrying amounts of each category of financial instruments as of June 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	June 30, 2020	December 31, 2019
Financial assets:		
Fair value through profit or loss ^(*)	₩1,979,368	₩1,942,584
Fair value through other comprehensive income or loss	182,339	240,456
Derivative assets	4,250	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents ^(*)	247,454	202,380
- Other financial assets	419,137	380,137
- Trade and other receivables	965,596	891,243
- Long-term deposits in MSA Escrow Fund	884,186	751,437
Subtotal	2,516,373	2,225,197
Total financial assets	₩4,682,330	₩4,410,514
Financial liabilities:		
Derivative liabilities	₩ 477	₩ -
Financial liabilities measured at amortized cost		
- Short-term borrowings	971	1,007
- Trade and other payables	467,754	209,223
- Lease liabilities	27,872	18,128
Subtotal	496,597	228,358
Total financial liabilities	₩ 497,074	₩ 228,358

^(*) As of June 30, 2020, money market trust worth ₩629,181 million (as of December 31, 2019: ₩454,395 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

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

The fair value measurements classified by fair value hierarchy as of June 30, 2020, and December 31, 2019, are as follows:

① As of June 30, 2020

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ^(*)	₩1,979,368	₩ -	₩1,757,263	₩222,105
Fair value through other comprehensive income or loss	182,339	133,355	-	48,984
Derivative assets	4,250	-	4,250	-
Total	2,165,957	133,355	1,761,513	271,089
Derivative liabilities	477	-	477	-
Total	₩ 477	₩ -	₩ 477	₩ -

^(*) As of June 30, 2020, money market trust worth ₩629,181 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

② As of December 31, 2019

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ^(*)	₩1,942,584	₩ -	₩1,693,658	₩248,926
Fair value through other comprehensive income or loss	240,456	191,929	-	48,527
Derivative assets	2,277	-	2,277	-
Total	₩2,185,317	₩191,929	₩1,695,935	₩297,453

^(*) As of December 31, 2019, money market trust worth ₩454,395 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There was no movement between levels of the fair value hierarchy for the six months ended June 30, 2020 and 2019.

As of June 30, 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 six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩297,453	₩260,595
Acquisition	3,513	18,500
Disposal	(32,722)	-
Reclassification	1,000	-
Changes in fair value	1,845	(2,474)
Ending balance	₩271,089	₩276,621

(6) Net gains or losses by category of financial instruments for the six months ended June 30, 2020 and 2019, are as follows:

① For the six months ended June 30, 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	₩ -	₩ -	₩ -	₩10,027	₩ -	₩10,027
Dividends income	7,677	9,059	-	-	-	16,736
Gain or loss on valuation	24,927	-	(12,207)	-	-	12,720
Gain or loss on disposal	-	-	-	29,303	89	29,392
Interest expense	-	-	-	-	(904)	(904)
Reversal of impairment loss	-	-	-	8,875	-	8,875
Total	₩32,604	₩ 9,059	₩ (12,207)	₩48,205	₩ (815)	₩76,846
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (59,117)	₩ -	₩ -	₩ -	₩ (59,117)

② For the six months ended June 30, 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	₩ -	₩ -	₩ -	₩10,183	₩ -	₩10,183
Dividends income	6,562	7,826	-	-	-	14,388
Gain or loss on valuation	21,519	-	(10,134)	-	-	11,385
Interest expense	-	-	-	-	(1,093)	(1,093)
Reversal of impairment loss	-	-	-	4,644	-	4,644
Total	₩28,081	₩ 7,826	₩(10,134)	₩14,827	₩(1,093)	₩39,507
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩19,207	₩ -	₩ -	₩ -	₩19,207

25. Contingent Liabilities and Commitments

(1) Litigation cases

As of June 30, 2020, the Company has 4 cases of pending litigations under progress where the Company is the defendant and the litigation value is ₩55,043 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of June 30, 2020, on the separate interim financial statements of the Company.

(2) Commitments with financial institutions

Major commitments of the Company with financial institutions as of June 30, 2020, are as follows:

In millions of Korean won or thousands of US dollars

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

^(*) Derivatives are composed of foreign exchange forward contracts and are held for trading as of June 30, 2020.

(3) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Company as of June 30, 2020, are as follows:

In millions of Korean won or thousands of US dollars

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,412,701	Housing distribution guarantee
Korea Trade Insurance Corporation	USD	65,594	Export guarantee insurance
Seoul Guarantee Insurance	KRW	2,434	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	15,955	Escrow deposit guarantee
KEB Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of June 30, 2020, the Company is provided with payment guarantees from Federal Insurance Company 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.

Details of the payment guarantee as of June 30, 2020, are as follows:

In thousands of US dollars

Provider	Currency	Limit amount	Execution amount	Details
Federal Insurance Company	USD	25,000	25,000	Import duty payment guarantee

Payment guarantees provided by the Company for other parties as of June 30, 2020, are as follows:

In millions of Korean won

Details of guarantee	Guarantee user	Limit amount	Execution amount
Loan guarantee for the intermediate payment	Shinhan Bank	₩ 79,400	₩40,768
	KEB Hana Bank	60,000	33,162
	Suhyup Bank	9,480	4,506
Total		₩148,880	₩78,436

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail trade receivables and receives related bonds from financial institutions and recognizes them as short-term borrowings(see Note 13).

Assets pledged as collateral as of June 30, 2020, are as follows:

<i>In millions of Korean won</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩402,227	₩20,948	₩ 22,922	MetLife Insurance, etc.	Establishment of right to collateral security and leasehold rights for leasehold deposits
Property, plant and equipment	23,202	3,395	3,395	Korea Technology Finance Corporation(“KOTEC”), etc.	Establishment of leasehold rights to leasehold deposits
Other financial assets	8,540	-	8,540	Korea Land & Housing Corporation	Establishment of a pledge to guarantee real estate development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩434,566	₩24,940	₩35,454		

Financial assets limited to use as of June 30, 2020, are summarized as follows:

<i>In millions of Korean won</i>	June 30, 2020
Other financial assets	
Establishment of a pledge to guarantee real estate development	₩ 8,540
Establishment of a pledge for leasehold deposits	597
Deposit in the Accompanied Growth Cooperation Loan Fund	100,000
Total	₩109,137

(4) Others

Each year, the Company deposits a proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement (“MSA”) under the Escrow Statute of the US government. The MSA Escrow Fund is maintained to pay the medical expenses of tobacco purchasers who have suffered health effects as a result of smoking which is considered to be the Company’s illegal act. The unused portion of the fund will be refunded to the Company after 25 years from the date of each annual funding. The Company has recognized ₩884,186 million as of June 30, 2020 (₩751,437 million as of December 31, 2019), as long-term deposits in MSA Escrow Fund and they are composed of T-Note and demand deposits.

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

The Company is currently operating Starfield Suwon Inc. 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 Company or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

As of June 30, 2020, the Company has a land contract with Starfield Suwon Inc., a joint venture (land contract value: ₩160,200 million), and the ownership of the land will be transited upon the payment of balance when the construction for Starfield Suwon begins.

The Company has a contract with Gwacheon Sangsang PFV, a subsidiary company, to purchase the knowledge-based industrial site for the development of Gwacheon Knowledge and Information Town at the time the Company's internal management decision is completed.

As of June 30, 2020, there is a capital call agreement for overseas real estate funds invested by the Company. 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 Company has the first priority of nomination for a portion of the area when logistics facilities developed by Yongin Jungsim are supplied. Also, the Company has the right to transfer shares to SpaceG if it does not receive the sale proceeds.

In October 2019, in preparation of the second phase of liquid e-cigarette safety management countermeasures jointly with the relevant departments, the Ministry of Health and Welfare recommended discontinuing the use of liquid e-cigarettes until the safety management system improvement and hazard verification are complete. Accordingly, CVS (convenience store) companies (the Company's suppliers), have announced that they will stop selling or placing new orders for two of the Company's products (SiiD Tundra and SiiD Toba) and are currently discussing sales returns for the products with the Company. As of June 30, 2020, the Company has recognized, in relation to the above event, inventory valuation loss allowance of ₩2,031 million and refund liabilities of ₩35 million.

In relation to the products that the Company has manufactured and exported to the United States, the Coalition Against Korean Cigarettes (a coalition of Cheyenne International and Xcaliber International) has submitted a petition to the United States Department of Commerce requesting an investigation into export dumping and industrial damages in December 2019. 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 United States Department of Commerce announced its affirmative preliminary determination in the antidumping duty (AD) investigation of imports of 4th tier cigarettes from South Korea on the 15th of July, 2020. Commerce preliminarily determined that the only known exporter from South Korea (the Company) has dumped 4th tier cigarettes in the United States at a margin of 5.48 percent. The results of the antidumping margin investigation are expected to be announced after November, 2020, but it is not possible for the Company to predict the exact date at this point in time. The Company does not expect the results of this investigation to have a material effect on its separate financial statements.

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

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

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

26. Cash Flows

(1) Details of cash generated from operations for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Profit for the period	₩ 535,609	₩ 500,253
Adjustments:		
Employee welfare	1,615	996
Retirement benefits	15,650	14,919
Loss (reversal) on valuation or obsolescence of inventories	6,906	2,291
Depreciation	60,941	53,708
Amortization	2,960	211
Impairment loss (reversal) on trade and other receivables	(8,875)	(4,644)
Loss on foreign currency translation	21,172	988
Loss on valuation of derivatives	17,773	11,244
Loss on disposal of property, plant and equipment	1,592	32
Loss on impairment of property, plant and equipment	-	436
Loss on disposal of intangible assets	67	-
Loss on disposal of investment properties	144	-
Loss on disposal of assets held for sale	1	-
Loss on impairment of investments in subsidiaries	5,138	12,893
Other expenses, etc.	9,598	9,831
Finance cost	6,891	8,384
Income tax expense	195,218	184,845
Gain on foreign currency translation	(6,722)	(41,211)
Gain on valuation of derivatives	(5,566)	(1,110)
Gain on disposal of property, plant and equipment	(610)	(2,051)
Gain on disposal of intangible assets	-	(3)
Gain on disposal of assets held for sale	(2,263)	(375)
Gain on disposal of investments in associates and joint ventures	(2,203)	(9,051)
Other income, etc.	(50,222)	-
Finance income	(87,593)	(54,502)
Changes in working capital:		
Increase in trade and other receivables	(68,433)	(113,909)
Increase in derivatives	(13,704)	(9,433)
Decrease(increase) in inventories	(37,051)	24,942
Decrease in accrued tobacco excise and other taxes	103,241	87,097
Increase in advance payments	(23,702)	(27,965)
Increase in prepaid expenses	(7,910)	(970)
Increase in trade and other payables	73,981	52,678
Increase(decrease) in advance receipts	16,441	(24,439)

Increase in tobacco excise and other taxes payable	236,766	475,963
Decrease in provision for site restoration	(3,572)	-
Increase(decrease) in net defined benefit liabilities	555	(342)
Cash generated from operations	₩993,833	₩1,151,706

(2) Material transactions without cash inflow and outflow for the six months ended June 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Reclassification of property, plant and equipment to investment properties	₩ (1,710)	₩62,598
Reclassification of investment in associates to fair value through other comprehensive income or loss	1,000	-
Reclassification of payables related to the payment of tobacco excise payables by credit card	₩226,956	₩ -

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

27. Subsequent Events

(1) On 15th July, 2020, the Securities & Futures Commission ('SFC' herein) passed a resolution regarding accounting issues of the Company for the reporting period 2011 to 2018 in accordance with the Act on External Audit of Stock Companies. The resolution passed by the SFC includes agendas such as the Company being designated an external auditor for 1 year, being restricted from issuing securities for 2 months as well as advising the Company to prepare a remedial plan in terms of internal control that strengthens the responsibilities of its Chief Financial Officer, etc. Based on the notification of investigation by the Securities & Futures Commission in relation to the resolution on the 28th July, 2020, the Company will submit a plan of action by the 28th August, 2020, and make adjustments to the Company's ledger and separate financial statements in accordance with the SFC resolution.

(2) Through a board of directors' resolution on the 6th August, 2020, the Company decided to acquire 2,500,000 of its treasury shares through a transaction on exchange.