



# **KT&G Corporation and Subsidiaries**

## **Review Report on Consolidated 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 AND SUBSIDIARIES

### 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 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 June 30, 2020, the related condensed consolidated 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 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

*Deloitte Anjin 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 consolidated financial statements and may result in modifications to the auditors' report.

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## KT&G CORPORATION AND SUBSIDIARIES

### Consolidated 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 consolidated 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 AND SUBSIDIARIES

## Consolidated 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
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	23	₩1,193,362,828,788	₩891,306,145,983
Current other financial assets	23,24	529,737,930,716	397,949,201,546
Current fair value through profit or loss	23	1,128,082,400,340	1,239,263,067,528
Trade and other receivables	5,16,22,23,24	998,815,323,262	1,023,385,660,122
Derivative assets	23,24	4,249,744,857	2,276,640,206
Inventories	6,24	2,359,349,465,166	2,447,214,219,082
Refund assets and others		4,410,013,121	3,027,268,752
Accrued tobacco excise and other taxes		191,212,083,685	291,481,567,634
Advance payments	24	131,517,109,106	83,696,244,207
Prepaid expenses		45,746,329,777	33,345,254,566
Assets held for sale	4,22,24	4,246,922,005	4,246,922,005
<b>Total current assets</b>		<b>₩6,590,730,150,823</b>	<b>₩6,417,192,191,631</b>
<b>Non-current assets:</b>			
Long-term other financial assets	23,24	₩10,889,031,545	₩4,480,027,000
Long-term deposits in MSA Escrow Fund	23,24	884,186,385,546	751,437,124,245
Long-term fair value through profit or loss	23	226,274,423,456	251,895,325,773
Long-term trade and other receivables	5,23,24	86,288,316,899	77,062,030,242
Fair value through other comprehensive income or loss	23,24,25	196,087,066,949	257,639,840,085
Investments in associates and joint ventures	4,7,22,24,25	39,489,230,851	49,393,336,819
Property, plant and equipment	8,24,25	1,766,252,580,123	1,753,357,780,790
Intangible assets	9	87,544,335,836	89,693,691,059
Investment properties	10,24,25	923,529,554,593	885,325,430,794
Right-of-use assets	11	49,272,578,163	45,483,777,486
Long-term advance payments	24	111,471,765,797	72,519,228,473
Long-term prepaid expenses		7,897,167,983	7,464,781,189
Deferred income tax assets		48,248,442,635	49,153,499,355
<b>Total non-current assets</b>		<b>4,437,430,880,376</b>	<b>4,294,905,873,310</b>
<b>Total assets</b>		<b>₩11,028,161,031,199</b>	<b>₩10,712,098,064,941</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Consolidated 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>
<b>Liabilities and equity:</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Short-term borrowings	12,23,24	₩26,577,389,055	₩27,066,108,741
Current portion of long-term borrowings	12,23,24	51,225,158,626	5,284,509,248
Trade and other payables	23,25	908,698,255,924	656,582,586,262
Current lease liabilities	23	19,436,267,854	18,909,138,677
Derivative liabilities	23,24	476,592,949	-
Advance receipts	16,22,24	87,905,843,964	77,028,657,918
Current refund liabilities and provisions	14,24	27,814,022,303	26,666,515,900
Current income tax liabilities		226,900,059,688	212,538,102,130
Tobacco excise and other taxes payables	25	619,059,900,863	576,018,441,937
<b>Total current liabilities</b>		<b>₩1,968,093,491,226</b>	<b>₩1,600,094,060,813</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	12,23,24	₩54,610,316,906	₩90,954,077,109
Long-term trade and other payables	23,24	48,069,237,779	59,638,008,450
Long-term lease liabilities	23	26,322,560,948	24,396,626,259
Long-term advance receipts		3,658,885,251	4,154,633,329
Net defined benefit liabilities	13	120,472,758,533	91,082,736,864
Long-term refund liabilities and provisions	14,24	2,851,057,922	3,090,174,123
Deferred income tax liabilities		111,887,114,177	129,918,339,005
Non-controlling interests liabilities	23	2,615,714,703	2,835,710,820
<b>Total non-current liabilities</b>		<b>₩370,487,646,219</b>	<b>₩406,070,305,959</b>
<b>Total liabilities</b>		<b>₩2,338,581,137,445</b>	<b>₩2,006,164,366,772</b>
<b>Equity:</b>			
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		5,959,191,985,716	5,671,479,866,186
Retained earnings	15	1,538,277,179,616	1,843,577,322,126
<b>Equity attributable to owners of the Parent Company</b>		<b>₩8,632,976,977,618</b>	<b>₩8,650,565,000,598</b>
<b>Non-controlling interests</b>		<b>56,602,916,136</b>	<b>55,368,697,571</b>
<b>Total equity</b>		<b>₩8,689,579,893,754</b>	<b>₩8,705,933,698,169</b>
<b>Total liabilities and equity</b>		<b>₩11,028,161,031,199</b>	<b>₩10,712,098,064,941</b>

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

# KT&G CORPORATION AND SUBSIDIARIES

## Consolidated interim statements of comprehensive income

For the 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
<b>Sales</b>	4,16,24	₩1,318,842,182,430	₩2,497,252,490,653	₩1,257,840,556,101	₩2,442,822,253,083
<b>Cost of sales</b>	17	(561,389,994,266)	(1,059,039,815,833)	(515,405,359,310)	(1,013,776,238,400)
<b>Gross profit</b>		757,452,188,164	1,438,212,674,820	742,435,196,791	1,429,046,014,683
Selling, general and administrative expense	17	(362,721,231,535)	(728,468,066,539)	(343,373,687,598)	(681,819,650,723)
<b>Operating profit</b>	4	394,730,956,629	709,744,608,281	399,061,509,193	747,226,363,960
Other income	18	25,845,285,230	98,612,527,283	48,408,277,451	80,298,944,378
Other expense	18	(42,447,376,072)	(75,994,349,705)	(24,224,489,317)	(41,316,458,091)
Finance income	19,23	26,210,545,874	89,586,528,799	23,145,400,610	56,367,526,665
Finance cost	19,23	(2,468,769,282)	(8,999,869,802)	(3,540,397,570)	(11,513,319,948)
Share of net profit of associates and joint ventures	7	84,654,183	4,605,464,618	2,360,284,054	1,891,270,933
<b>Profit before income tax</b>		401,955,296,562	817,554,909,474	445,210,584,421	832,954,327,897
Income tax expense	20	(108,497,533,635)	(230,222,116,182)	(120,746,867,752)	(234,655,497,268)
<b>Profit for the period</b>		₩293,457,762,927	₩587,332,793,292	₩324,463,716,669	₩598,298,830,629
<b>Other comprehensive income (loss) after income tax:</b>		₩22,898,838,350	₩ (46,734,936,507)	₩ (1,075,494,334)	₩26,296,248,925
<b>Items that will not be reclassified to profit or loss</b>					
Re-measurements of net defined benefit liabilities	15	(2,881,150,440)	(3,147,267,348)	(12,961,183,960)	(13,501,926,657)
Gain (loss) on valuation of fair value through other comprehensive income or loss		3,324,896,896	(45,464,141,923)	5,518,173,081	13,258,063,680
Capital changes in equity method	7	10,671,316	(33,179,045)	(15,708,415)	26,619,132
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Exchange differences on translating foreign operations		22,195,179,653	1,660,410,884	6,383,224,960	26,513,492,770
Capital changes in equity method	7	249,240,925	249,240,925	-	-
<b>Total comprehensive income for the period</b>		₩316,356,601,277	₩540,597,856,785	₩323,388,222,335	₩624,595,079,554
<b>Profit attributable to:</b>					
Owners of the Parent Company		₩293,107,086,556	₩586,110,726,917	₩322,786,282,794	₩595,813,778,212
Non-controlling interests		350,676,371	1,222,066,375	1,677,433,875	2,485,052,417
<b>Total</b>		₩293,457,762,927	₩587,332,793,292	₩324,463,716,669	₩598,298,830,629
<b>Other comprehensive income for the period attributable to:</b>					
Owners of the Parent Company		₩315,999,969,075	₩539,363,638,220	₩321,702,576,651	₩622,100,234,748
Non-controlling interests		356,632,202	1,234,218,565	1,685,645,684	2,494,844,806
<b>Total</b>		₩316,356,601,277	₩540,597,856,785	₩323,388,222,335	₩624,595,079,554
<b>Earnings per share:</b>					
Basic and diluted	21	₩2,315	₩4,630	₩2,556	₩4,719

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

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# KT&G CORPORATION AND SUBSIDIARIES

## Consolidated 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	Owners of the parent	Non-controlling interests	Total equity
<b>Balance at January 1, 2019</b>	₩954,959,485,000	₩ (29,719,795,353)	₩ (328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
<b>Total comprehensive income (loss) for the period:</b>									
Profit for the period	-	-	-	-	-	595,813,778,212	595,813,778,212	2,485,052,417	598,298,830,629
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(13,509,066,644)	(13,509,066,644)	7,139,987	(13,501,926,657)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	13,258,063,680	-	13,258,063,680	-	13,258,063,680
Exchange differences on translating foreign operations	-	-	-	-	26,510,840,368	-	26,510,840,368	2,652,402	26,513,492,770
Capital changes in equity method	-	-	-	-	26,619,132	-	26,619,132	-	26,619,132
Sum of other comprehensive income (loss) for the period	-	-	-	-	39,795,523,180	(13,509,066,644)	26,286,456,536	9,792,389	26,296,248,925
<b>Total comprehensive income for the period</b>	-	-	-	-	39,795,523,180	582,304,711,568	622,100,234,748	2,494,844,806	624,595,079,554
<b>Transactions with owners of the Parent Company:</b>									
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)	-	-	-
Changes in non-controlling interests, etc	-	163,518,192	-	-	-	-	163,518,192	(379,680,425)	(216,162,233)
<b>Total transactions with owners of the Parent Company</b>	-	163,518,192	-	-	285,966,201,122	(791,026,709,122)	(504,896,989,808)	(379,680,425)	(505,276,670,233)
<b>Balance at June 30, 2019</b>	₩954,959,485,000	₩ (29,556,277,161)	₩ (328,157,286,128)	₩513,775,933,891	₩5,681,389,224,400	₩1,404,072,016,180	₩8,196,483,096,182	₩55,915,538,120	₩8,252,398,634,302

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

# KT&G CORPORATION AND SUBSIDIARIES

## Consolidated 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	Owners of the parent	Non-controlling interests	Total equity
<b>Balance at January 1, 2020</b>	₩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
<b>Total comprehensive income (loss) for the period:</b>									
Profit for the period	-	-	-	-	-	586,110,726,917	586,110,726,917	1,222,066,375	587,332,793,292
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(3,159,195,642)	(3,159,195,642)	11,928,294	(3,147,267,348)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(45,464,141,923)		(45,464,141,923)	-	(45,464,141,923)
Exchange differences on translating foreign operations	-	-	-	-	1,660,186,988	-	1,660,186,988	223,896	1,660,410,884
Capital changes in equity method	-	-	-	-	216,061,880	-	216,061,880	-	216,061,880
Sum of other comprehensive income (loss) for the period	-	-	-	-	(43,587,893,055)	(3,159,195,642)	(46,747,088,697)	12,152,190	(46,734,936,507)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(43,587,893,055)	582,951,531,275	539,363,638,220	1,234,218,565	540,597,856,785
<b>Transactions with owners of the Parent Company:</b>									
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)	-	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-	-	-
<b>Total transactions with owners of the Parent Company</b>	-	-	-	-	331,300,012,585	(888,251,673,785)	(556,951,661,200)	-	(556,951,661,200)
<b>Balance at June 30, 2020</b>	₩954,959,485,000	₩ (29,556,277,161)	₩ (318,789,449,459)	₩528,894,053,906	₩5,959,191,985,716	₩1,538,277,179,616	₩8,632,976,977,618	₩56,602,916,136	₩8,689,579,893,754

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



# KT&G CORPORATION AND SUBSIDIARIES Consolidated interim statements of cash flows

For the 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
<b>Cash flows from operating activities</b>		₩1,019,170,257,681	₩1,186,586,916,548
Cash generated from operations	25	1,238,458,606,874	1,395,977,956,151
Income taxes paid		(219,288,349,193)	(209,391,039,603)
<b>Cash flows from investing activities</b>		(160,572,055,538)	(400,754,456,196)
Interest received		12,995,466,863	11,258,859,218
Dividends received		17,531,687,768	15,570,548,878
Decrease in other financial assets		312,840,300,000	391,000,000,000
Decrease in current fair value through profit or loss		133,719,186,343	136,500,000
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		6,892,363,300	3,174,834,366
Disposal of intangible assets		2,309,130,910	100,233,294
Disposal of investment properties		2,785,120,000	-
Disposal of investments in associates and joint ventures		21,193,630,212	24,650,929,551
Collection of loans		7,641,682,899	7,077,759,833
Collection of guarantee deposits		417,083,920	1,066,475,123
Collection of finance lease receivables		271,764,001	-
Increase in other financial assets		(450,974,074,054)	(153,216,332,286)
Increase in current fair value through profit or loss		(1,200,000,000)	(465,332,756,367)
Increase in long-term fair value through profit or loss		(3,512,500,000)	(18,500,000,000)
Increase in fair value through other comprehensive income or loss		-	(900,000,000)
Increase in long-term deposits in MSA Escrow Fund		(106,560,291,182)	(48,734,791,687)
Acquisition of property, plant and equipment		(90,413,449,023)	(118,164,714,987)
Acquisition of intangible assets		(19,867,924,808)	(4,945,003,096)
Acquisition of investment properties		(52,188,596,395)	(38,759,952,318)
Acquisition of right-of-use assets		(127,428,268)	-
Acquisition of investments in associates and joint ventures		(8,000,000,000)	-
Increase in loans		(8,800,502,345)	(5,618,037,207)
Increase in guarantee deposits		(436,959,373)	(619,008,511)
<b>Cash flows from financing activities</b>		(558,721,373,206)	(586,361,514,149)
Dividends paid		(556,951,661,200)	(505,060,508,000)
Interest paid		(1,078,036,629)	(4,013,002,060)
Repayment of lease liabilities		(10,584,223,577)	(7,787,382,838)
Repayment of borrowings		(58,009,439,783)	(214,761,951,372)
Capital increase with share premium		831,000	-
Increase in borrowings		67,901,156,983	145,261,330,121
<b>Net increase in cash and cash equivalents</b>		299,876,828,937	199,470,946,203
<b>Cash and cash equivalents at January 1</b>		891,306,145,983	932,969,110,015
Effect of exchange rate fluctuation on cash and cash equivalents		2,179,853,868	5,830,135,045
<b>Cash and cash equivalents at June 30</b>		₩1,193,362,828,788	₩1,138,270,191,263

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

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# KT&G CORPORATION AND SUBSIDIARIES

## Notes to the consolidated interim financial statements

As of June 30, 2020, and December 31, 2019, and for the six months ended June 30, 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 June 30, 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 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
<b>Total</b>	<b>137,292,497</b>	<b>100.00</b>

## 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of June 30, 2020, are as follows:

Controlling company	Subsidiary	Principal operation	Percentage of ownership(%) <sup>1)</sup>	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	June.30.2020	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	June.30.2020	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	June.30.2020	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	June.30.2020	Turkey
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	June.30.2020	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	June.30.2020	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	June.30.2020	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	June.30.2020	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	June.30.2020	Korea
	Renzoluc Pte., Ltd. <sup>2)</sup>	Holding company	100.00	June.30.2020	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	June.30.2020	Indonesia
	SangSang Stay Inc.	Hotel	100.00	June.30.2020	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	June.30.2020	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00	June.30.2020	Korea
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	June.30.2020	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng etc.	100.00	June.30.2020	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng etc.	100.00	June.30.2020	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng etc.	100.00	June.30.2020	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng etc.	100.00	June.30.2020	USA
	Korea Ginseng (China) Corp.	Selling ginseng etc.	100.00	June.30.2020	China
	Korea Ginseng Corporation Japan	Selling ginseng etc.	100.00	June.30.2020	Japan
Cosmococ Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics etc.	98.56	June.30.2020	HongKong
	K&I China Co., Ltd.	Selling cosmetics etc.	98.56	June.30.2020	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	June.30.2020	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indag Makmur	Selling tobaccos	99.99	June.30.2020	Indonesia

<sup>1)</sup> The percentage of ownership, shown above, is on a consolidated basis.

<sup>2)</sup> The percentage of ownership, shown above, does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of June 30, 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 information<sup>1)</sup> for consolidated subsidiaries as of and for the six months ended June 30, 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	₩2,172,013	₩210,289	₩668,645	₩65,868	₩63,362
Yungjin Pharm. Co., Ltd.	202,281	83,900	107,774	2,604	2,629
Tae-a Industry Co., Ltd.	54,513	6,191	8,828	(578)	(588)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	39,497	59,625	1,718	(8,169)	(6,269)
Korea Tabacos do Brasil Ltda.	1,787	141	-	(146)	(657)
KT&G Pars	303	58,048	-	(21,882)	(500)
KT&G Rus L.L.C.	151,016	70,242	19,082	2,040	(5,177)
KT&G USA Corporation	127,899	94,676	116,168	8,541	9,379
Cosmocos Co., Ltd.	47,446	33,368	31,859	165	165
Renzoluc Pte., Ltd.	138,150	33,792	-	(428)	1,058
PT KT&G Indonesia	88,486	108,168	54,608	(15,867)	(16,147)
SangSang Stay, Inc.	46,444	50,073	3,081	(4,820)	(4,820)
KT&G Global Rus L.L.C.	53,245	57,352	11,887	4,501	5,201
Gwacheon SangSang PFV	6,178	840	-	(449)	(449)
PT Trisakti Purwosari Makmur	235,507	86,984	36,713	1,557	3,671
PT Nusantara Indag Makmur	81	-	-	-	1
KGC Yebon Corporation	52,066	6,534	5,655	60	(14)
KGC Life & Gin Co., Ltd.	29,148	7,579	23,825	926	926
Jilin Hanzheng Ginseng Co., Ltd.	50,366	707	4,106	(522)	642
Cheong Kwan Jang Taiwan Corporation	21,837	18,858	15,086	121	280
Korean Red Ginseng Corp., Inc.	17,589	7,882	11,465	828	1,109
Korea Ginseng (China) Corp.	32,983	22,050	31,313	(79)	176
Korea Ginseng Corporation Japan	5,097	3,558	4,334	119	187
K&I HK Co., Ltd.	67	217	-	(38)	(43)
K&I China Co., Ltd.	₩1,084	₩4,005	₩265	₩ (482)	₩ (534)

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

Summarized financial information<sup>1)</sup> for consolidated subsidiaries as of and for the year ended December 31, 2019, are as follows:

<i>In millions of Korean won</i>	Total assets	Total liabilities	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Ginseng Corporation	₩2,127,670	₩229,308	₩1,403,681	₩147,711	₩141,540
Yungjin Pharm. Co., Ltd.	200,446	84,695	220,516	5,030	4,145
Tae-a Industry Co., Ltd.	54,946	6,035	19,091	651	228
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	32,788	46,647	12,780	(6,397)	(5,415)
Korea Tabacos do Brasil Ltda.	2,434	132	-	(186)	(182)
KT&G Pars	619	57,863	-	(14,929)	(8,120)
KT&G Rus L.L.C.	166,998	81,047	44,790	3,999	15,490
KT&G USA Corporation	63,072	39,228	155,543	3,257	3,941
Cosmocos Co., Ltd.	50,424	36,512	71,363	(14,259)	(14,928)
Renzoluc Pte., Ltd.	136,006	32,706	-	(1,864)	6,094
PT KT&G Indonesia	104,970	108,505	147,010	10,257	8,718
SangSang Stay, Inc.	52,457	51,266	22,659	(2,309)	(2,391)
KT&G Global Rus L.L.C.	51,228	60,536	34,631	(924)	(2,115)
Gwacheon SangSang PFV	6,269	482	-	(1,151)	(1,151)
PT Trisakti Purwosari Makmur <sup>2)</sup>	213,266	68,414	65,872	8,092	18,218
PT Trisakti Purwosari Makmur (Previously, PT Mandiri Maha Mulia) <sup>2)</sup>	-	-	25,159	2,017	4,240
PT Trisakti Purwosari Makmur (Previously, PT Sentosa Ababi Purwosari) <sup>2)</sup>	-	-	17,635	2,911	(2,792)
PT Trisakti Purwosari Makmur (Previously, PT Purindo Ilufa) <sup>2)</sup>	-	-	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)

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

<sup>2)</sup> 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 consolidated interim financial statements of the Parent Company and subsidiaries (the “Group”) have been prepared in accordance with Korean International Financial Reporting Standard (“K-IFRS”) No. 1034 ‘Interim Financial Reporting.’ These consolidated interim financial statements have been prepared in accordance with K-IFRS that are effective or early adopted as of June 30, 2020 at the end of the reporting period.

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

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

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

In accordance with the amendment to K-IFRS No. 1116, the Group has made changes to its accounting policy and retrospectively applied its modified accounting policy in accordance with the transitional provisions. There are no cumulative effects that need to be reflected to the Group's beginning balance for retained earnings as of January 1, 2020, from the retrospective application of this modified accounting policy. The comparative financial statements for the previous reporting period have also not been restated. The amount recognized through profit or loss to reflect changes in lease payments from rent concessions during the reporting period is ₩105 million.

There are no material effects of the above mentioned amendments made to K-IFRSs on the consolidated interim financial statements of the Group as of June 30, 2020, except for the amendments made to K-IFRS No. 1116 'Leases'.

(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 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 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 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 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>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩1,538,704	₩763,342	₩280,694	₩143,060	₩2,725,800	₩ (228,548)	₩2,497,252
Intersegment sales	(162,629)	(57,492)	(7,372)	(1,055)	(228,548)	228,548	-
External sales	1,376,075	705,850	273,322	142,005	2,497,252	-	2,497,252
Operating profit	506,073	92,200	116,874	(352)	714,795	(5,050)	709,745

② For the six months ended June 30, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩1,521,810	₩786,797	₩179,857	₩158,866	₩2,647,330	₩ (204,508)	₩2,442,822
Intersegment sales	(137,670)	(56,236)	(7,220)	(3,382)	(204,508)	204,508	-
External sales	1,384,140	730,561	172,637	155,484	2,442,822	-	2,442,822
Operating profit	531,436	133,473	77,809	2,710	745,428	1,798	747,226

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

<i>In millions of Korean won</i>		2020		2019	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Revenue recognized at a point in time:					
Tobacco	Wholesale, retail	₩763,569	₩1,369,787	₩744,600	₩1,379,003
	Direct sales	3,408	6,288	2,122	5,137
Ginseng	Wholesale, retail	159,908	366,577	144,662	405,775
	Direct sales	134,759	339,273	174,022	324,786
Others	Wholesale, retail	65,982	137,515	73,389	141,388
	Direct sales	1,300	4,490	6,767	12,864
Subtotal		1,128,926	2,223,930	1,145,562	2,268,953
Revenue recognized over time:					
Real estate	Sales and rental	189,916	273,322	111,702	172,637
Others	Services, etc.	-	-	576	1,232
Subtotal		189,916	273,322	112,278	173,869
Total		₩1,318,842	₩2,497,252	₩1,257,840	₩2,442,822

(4) Segment information on assets and liabilities 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>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,071,364	₩2,016,626	₩1,155,055	₩282,602	₩8,525,647	₩ (1,906,372)	₩6,619,275
Investments in associates and joint ventures	-	-	36,246	3,243	39,489	-	39,489
Assets held for sale	4,247	-	-	-	4,247	-	4,247
Subtotal	5,075,611	2,016,626	1,191,301	285,845	8,569,383	(1,906,372)	6,663,011
Common assets							4,365,150
Total assets							₩11,028,161
Acquisition of non-current assets	144,184	17,866	-	2,837	164,887	(2,417)	162,470
Liabilities:							
Segment liabilities	₩1,945,517	₩178,532	₩840	₩151,243	₩2,276,132	₩ (446,040)	₩1,830,092
Common liabilities							508,489
Total liabilities							₩2,338,581

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
Common 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
Common 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 common assets and borrowings and deferred tax liabilities and others are included in the common liabilities.

(5) Geographical information determined by customer's location for the 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		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩2,236,543	₩260,709	₩2,497,252	₩2,226,739	₩216,083	₩2,442,822
Non-current assets	4,295,366	142,065	4,437,431	3,769,419	191,659	3,961,078

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 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	₩915,706	₩-	₩941,104	₩-
Loans	12,051	38,591	11,302	38,110
Other receivables	28,062	4,030	24,617	1,486
Guarantee deposits	38,688	43,491	40,185	37,118
Accrued income	3,708	73	5,734	24
Finance lease receivables	600	103	444	324
Total	₩998,815	₩86,288	₩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 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	₩1,101,045	₩86,368	₩1,144,497	₩77,142
Allowances:				
Trade receivables	(101,423)	-	(120,385)	-
Other receivables	(807)	(80)	(726)	(80)
Total allowances	(102,230)	(80)	(121,111)	(80)
Net trade and other receivables	₩998,815	₩86,288	₩1,023,386	₩77,062

(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	₩121,191	₩82,083
Impairment loss (reversal)	(17,279)	(1,976)
Write off	(214)	(48)
Net exchange difference, etc.	(1,388)	1,648
Ending balance	₩102,310	₩81,707

Impairment loss (reversal of impairment loss) on trade receivables is included as part of selling, general and administrative expense while impairment loss (reversal of impairment loss) on other receivables is included as part of other expense (income) in the consolidated 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	₩84,314	₩ (20,073)	₩64,241	₩66,241	₩ (14,366)	₩51,875
Finished goods	818,342	(9,556)	808,786	823,865	(8,798)	815,067
Work in progress	515,814	(946)	514,868	644,692	(647)	644,045
Raw materials	835,914	(2,142)	833,772	836,871	(2,577)	834,294
Supplies	38,405	-	38,405	33,257	-	33,257
By-products	6,730	-	6,730	7,131	-	7,131
Buildings under construction	9,457	-	9,457	6,378	-	6,378
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	71,832	-	71,832	42,678	-	42,678
Total	₩2,392,066	₩ (32,717)	₩2,359,349	₩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 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
Cost of sales:		
Loss(reversal of loss) on valuation of inventories	₩7,674	₩155
Loss on obsolescence of inventories	2,283	2,010
Other expense:		
Loss on obsolescence of inventories	207	734
Total	₩10,164	₩2,899

## 7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures 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	₩49,393	₩83,989
Acquisition	8,000	-
Disposal	(21,194)	(24,651)
Equity method gains and losses	4,605	1,891
Dividends	(613)	(1,121)
Reclassification	(1,000)	-
Changes in equity method capital	298	43
Ending balance	₩39,489	₩60,151

## 8. 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	₩1,753,358	₩1,818,788
Acquisition	83,324	113,029
Disposal/obsolescence/impairment loss	(4,584)	(1,967)
Depreciation	(75,311)	(69,575)
Reclassification, etc.	9,466	(67,004)
Ending balance	₩1,766,253	₩1,793,271

## 9. 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	₩89,694	₩71,954
Acquisition	19,920	4,945
Disposal/obsolescence/impairment loss	(2,444)	(115)
Amortization	(5,622)	(1,523)
Reclassification, etc.	(14,004)	4,177
Ending balance	₩87,544	₩79,438

## 10. 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	₩885,325	₩495,049
Acquisition	52,189	38,760
Disposal/obsolescence/impairment loss	(2,929)	-
Depreciation	(8,707)	(8,097)
Reclassification, etc.	(2,348)	58,150
Ending balance	₩923,530	₩583,862

## 11. 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	₩45,484	₩-
Changes in accounting policies	-	51,169
Acquisition	15,880	9,199
Disposal	(920)	(13)
Depreciation	(11,533)	(11,423)
Net exchange rate differences, etc.	362	561
Ending balance	₩49,273	₩49,493

## 12. Borrowings

(1) Short-term borrowings as of June 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Annual interest rate (%)	June 30, 2020	December 31, 2019
Borrowings	KEB Hana Bank	FTP+1.104 ~ 2.024	₩6,000	₩7,200
		Bank Debenture(6 months)		
		+1.970~2.214	10,000	10,000
	KEB Hana Bank Bahrain branch	3M LIBOR+1.1	6,606	6,359
	KDB Development Bank	Industrial Financial Debenture		
		(1 year)+0.9	3,000	2,500
	Subtotal		25,606	26,059
Consumer credit agreements <sup>1)</sup>	NH Nonghyup Bank, etc.	CD Annual Percentage Yield		
		(91 days)+4.5	725	763
	KEB Hana Card	CD Annual Percentage Yield		
		(91 days)+2.5	246	244
	Subtotal		971	1,007
	Total		₩26,577	₩27,066

<sup>1)</sup> The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables, and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings.

(2) Long-term borrowings as of June 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate (%)	June 30, 2020	December 31, 2019
Other financial loan for working capital	NH Nonghyup Bank	2021.03.03~ 2025.06.22	-	₩59,912	₩47,015
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03	3,575	4,125
			MOR(6 months) +1.58	3,467	4,000
	KDB Development Bank	2020.08.19~ 2021.08.19	2.33~2.90	3,541	5,759
Redeemable convertible preferred shares <sup>1) 2)</sup>				35,340	35,340
Total				105,835	96,239
Consolidated statements of financial position:					
Current <sup>2)</sup>				51,225	5,285
Non-current				54,610	90,954
Total				₩105,835	₩96,239

<sup>1)</sup> Redeemable convertible preferred shares as of June 30, 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 Equity Fund (“PEF”).
Convertible rights to ordinary share	The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date.
Repayment claim right	The right to request for liquidation or claim for a stake purchase 270 days prior to the expiration of the PEF.

<sup>2)</sup> As of June 30, 2020, has been reclassified as current portion of long-term borrowings since the period in which the holder of the convertible preferred shares can request for a stake purchase is due within a year.

(3) As discussed in Note 24-(3) to the 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 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	₩13,051	₩26,186	₩11,789	₩23,800
Net interest on net defined benefit liabilities	480	973	762	1,225
Subtotal	13,531	27,159	12,551	25,025
Defined contribution plan:				
Contributions recognized as expense	1,301	3,570	1,352	3,685
Other long-term employee benefits:				
Current service cost, etc.	832	1,845	811	1,599
Termination benefits:				
Voluntary retirements, etc.	-	2,589	42	3,827
Total	₩15,664	₩35,163	₩14,756	₩34,136

(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	₩564,298	₩542,699
Fair value of plan assets	(443,825)	(451,616)
Total	₩120,473	₩91,083



## 14. 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	10,053	1,319	11,790	1,584
Provision for site restoration	14,732	1,155	9,680	1,013
Provision for financial guarantee	-	375	-	492
Provision for others	1,051	2	1,503	1
Total	₩27,814	₩2,851	₩26,667	₩3,090

(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	13,374	3,034	(5,036)	11,372
Provision for site restoration	10,693	8,831	(3,637)	15,887
Provision for financial guarantee	492	-	(117)	375
Provision for others	1,504	-	(451)	1,053
Total	₩29,757	₩12,668	₩ (11,760)	₩30,665

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	9,948	7,868	(2,722)	15,094
Provision for site restoration	4,387	69	(143)	4,313
Provision for financial guarantee	700	-	(89)	611
Provision for others	413	1,485	(413)	1,485
Total	₩18,945	₩16,708	₩ (6,449)	₩29,204

## 15. 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	₩1,843,577	₩1,612,794
Profit for the period	587,333	598,299
- Less: Non-controlling interests	(1,222)	(2,485)
Re-measurements of net defined benefit liabilities(after tax)	(3,147)	(13,502)
- Less: Non-controlling interests(after tax)	(12)	(7)
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Ending balance	₩1,538,277	₩1,404,072

## 16. 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	Revenue (cumulative)	Revenue (period) <sup>1)</sup>	Cost (cumulative) <sup>2)</sup>
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

<sup>1)</sup> 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).

<sup>2)</sup> 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	Revenue (cumulative)	Revenue (period) <sup>1)</sup>	Cost (cumulative)
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

<sup>1)</sup> 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 December 31, 2019

*In millions of Korean won*

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio(Apartment)	₩434,301	₩480,041	₩-	₩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.

## 17. 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	₩54,939	₩87,865	₩39,535	₩117,598
Raw materials etc. used and merchandise purchased	293,968	526,434	170,949	417,695
Salaries	146,490	308,967	129,912	274,125
Retirement and termination benefits	14,832	33,318	13,945	32,537
Depreciation	48,406	95,551	45,781	88,992
Amortization	2,813	5,622	916	1,523
Employee welfare	20,507	40,545	19,360	37,382
Advertising	64,487	119,591	61,047	116,422
Commissions	156,774	325,033	137,888	292,876
Other expenses	120,895	244,582	239,446	316,446
Total	₩924,111	₩1,787,508	₩858,779	₩1,695,596

(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	₩97,751	₩207,791	₩94,152	₩191,161
Retirement and termination benefits	10,103	23,094	9,202	21,691
Employee welfare	13,763	27,351	14,232	26,379
Travel expenses	1,856	4,720	5,259	9,660
Communication cost	1,491	2,855	1,506	2,857
Utilities	1,976	5,129	2,124	5,114
Taxes and dues	22,249	25,698	21,013	23,321
Supplies	1,431	2,978	1,105	2,183
Rent	3,462	7,155	2,345	6,089
Depreciation	15,702	30,811	16,658	32,676
Amortization	2,767	5,533	870	1,432
Repairs and maintenance	2,383	3,601	1,367	2,148
Vehicles	1,585	3,286	1,739	3,260
Insurance	876	1,982	585	1,507
Commissions	103,635	216,164	89,071	187,486
Freight and custody	15,455	29,812	11,960	23,963
Conferences	862	1,710	1,222	2,438
Advertising	64,445	119,537	61,024	116,375
Education and training	1,179	2,420	2,063	3,516
Prizes and rewards	333	913	514	963
Cooperation	283	552	188	465
Research and development	12,738	22,652	10,566	19,146
Impairment loss (reversal of impairment loss) on trade receivables	(13,604)	(17,276)	(5,391)	(2,010)
Total	₩362,721	₩728,468	₩343,374	₩681,820

## 18. 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	₩14,591	₩67,538	₩10,406	₩13,390
Gain on foreign currency translation	-	12,522	16,992	46,304
Gain on valuation of derivatives	5,566	5,566	4,052	1,110
Reversal of impairment loss on other receivables	937	937	1,019	1,019
Gain on disposal of property, plant and equipment	39	623	2,091	2,113
Gain on disposal of intangible assets	-	-	-	3
Gain on lease contract adjustments	86	168	118	118
Reversal of provision for site restoration	-	-	17	17
Miscellaneous income	4,626	11,259	13,713	16,225
<b>Total</b>	<b>₩25,845</b>	<b>₩98,613</b>	<b>₩48,408</b>	<b>₩80,299</b>

(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	₩6,834	₩12,223	₩3,157	₩4,810
Loss on foreign currency translation	26,524	32,155	967	11,939
Loss on valuation of derivatives	944	17,773	8,989	11,244
Loss on impairment of other receivables	777	934	1,053	1,053
Loss on disposal of property, plant and equipment	1,244	1,776	320	329
Loss on impairment of property, plant and equipment	479	479	28	464
Loss on disposal of intangible assets	26	112	17	17
Loss on impairment of intangible assets	23	23	-	-
Loss on disposal of investment properties	-	144	-	-
Donations	1,860	2,966	1,797	2,578
Loss on lease contract adjustments	7	26	-	-
Miscellaneous loss	3,729	7,383	7,896	8,882
<b>Total</b>	<b>₩42,447</b>	<b>₩75,994</b>	<b>₩24,224</b>	<b>₩41,316</b>

## 19. 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 <sup>1)</sup>	₩5,180	₩12,549	₩6,215	₩12,866
Dividend income	5,187	16,820	4,216	14,556
Gain on valuation of fair value through profit or loss	15,844	30,915	12,714	28,946
Gain on disposal of long-term deposits in MSA Escrow Fund	-	29,303	-	-
Total finance income	₩26,211	₩89,587	₩23,145	₩56,368
Finance cost:				
Interest expense	1,232	3,012	2,069	4,222
Loss on valuation of fair value through profit or loss	1,237	5,988	1,471	7,291
Total finance cost	2,469	9,000	3,540	11,513
Net finance income	₩23,742	₩80,587	₩19,605	₩44,855

<sup>1)</sup> The interest income is from financial instruments measured at amortized cost.

## 20. Income Tax Expense

The income tax expense was calculated by making 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 28.16% and 28.17%, respectively.

## 21. 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 Parent Company (in millions of Korean won)	293,107	586,111	322,786	595,814
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)	2,315	4,630	2,556	4,719

## 22. Related Parties

(1) Details of the Group's related parties as of June 30, 2020, and December 31, 2019, are as follows:

	June 30, 2020	December 31, 2019
Associates	LSK Global Pharma Services Co., Ltd. LitePharmTech Co., Ltd. <sup>1)</sup> - <sup>2)</sup>	LSK Global Pharma Services Co., Ltd. LitePharmTech Co., Ltd. <sup>1)</sup> Yong In Jung Sim Co., Ltd.
Joint ventures	- <sup>3)</sup> KORAMCO Private REIT 50 Fund <sup>4)</sup> KORAMCO Europe Private REIT 3-2 Fund <sup>4)</sup> Starfield Suwon, Inc.	KB Gimpo Logistics CR REIT Co., Ltd. <sup>3)</sup> KORAMCO Private REIT 50 Fund <sup>4)</sup> KORAMCO Europe Private REIT 3-2 Fund <sup>4)</sup> Starfield Suwon, Inc.

<sup>1)</sup> It is classified as an investment in associates even though the Group'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 shareholders' agreement, the Group has judged that it has significant influence over the invested company.

<sup>2)</sup> 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 Group no longer has significant influence in the invested company. The Group'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 Group's related parties as of June 30, 2020.

<sup>3)</sup> It was 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. The Group has since liquidated its holdings in the invested company and therefore it has been excluded from the Group's related parties as of June 30, 2020.

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

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

		2020		2019	
		Sales and other income		Sales and other income	
		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>					
Associates	JR REIT 5 Co., Ltd. <sup>1)</sup>	₩-	₩-	₩130	₩130
	JR REIT 8 Co., Ltd. <sup>1)</sup>	-	-	108	108
	JR REIT 10 Co., Ltd. <sup>1)</sup>	-	-	292	292
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	613	613	591	591
Total		₩613	₩613	₩1,121	₩1,121

<sup>1)</sup> JR REIT 5 Co., Ltd., JR REIT 8 Co., Ltd., and JR REIT 10 Co., Ltd. were liquidated during the year ended December 30, 2019.

(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
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd.	₩-	₩-	₩99	₩-
	KORAMCO Private REIT 50 Fund	-	-	523	-
	Starfield Suwon, Inc.	-	16,020	-	16,020
	Total	₩-	₩16,020	₩622	₩16,020

(4) Fund transactions with related parties 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	
		Equity investment	Equity recovery <sup>1)</sup>	Collection of loans	Equity recovery <sup>1)</sup>
Associates	LSK Global Pharma Services Co., Ltd.	₩-	₩-	₩150	₩-
	JR REIT 5 Co., Ltd. <sup>1)</sup>	-	-	-	11,125
	JR REIT 8 Co., Ltd. <sup>1)</sup>	-	-	-	13,526
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. <sup>1)</sup>	-	3,356	-	-
	KORAMCO Private REIT 50 Fund <sup>1)</sup>	-	17,838	-	-
	Starfield Suwon, Inc.	8,000	-	-	-
Total		₩8,000	₩21,194	₩150	₩24,651

<sup>1)</sup> According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the six months ended June 30, 2020 and 2019.

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

(6) As of June 30, 2020, the Group 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 Group 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 'advance 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 24 (4)).

(7) 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

### 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 the finance department of the Group has overall responsibility for risk management. The finance department of the Group is responsible for monitoring and managing the financial risks associated with the operations of the Group in accordance with the risk management policies and procedures approved by the board of directors, and it periodically analyzes the nature and exposure of the financial risks. In addition, the Parent Company's audit committee continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Group's overall financial risk management strategy is the same as the previous 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 Group's financial instruments. The Group manages and controls market risk exposures within the acceptable limits, while optimizing the revenue.

##### ① Currency risk

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

##### ② Price risk

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

##### ③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of 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 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 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) <sup>1)</sup>	₩562,329	₩435,576
Other financial assets	540,627	402,429
Fair value through profit or loss <sup>1)</sup>	1,985,148	1,946,558
Trade and other receivables	1,085,104	1,100,448
Long-term deposits in MSA Escrow Fund	884,186	751,437
Derivative assets	4,250	2,277
<b>Total</b>	<b>₩5,061,644</b>	<b>₩4,638,725</b>

<sup>1)</sup> As of June 30, 2020, money market trust etc. worth ₩630,791 million (as of December 31, 2019: ₩455,400 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

## (3) Liquidity risk

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

(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 <sup>1)</sup>	₩1,985,148	₩1,946,558
Fair value through other comprehensive income or loss	196,087	257,640
Derivative assets	4,250	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents <sup>1)</sup>	562,572	435,906
- Other financial assets	540,627	402,429
- Trade and other receivables	1,085,104	1,100,448
- Long-term deposits in MSA Escrow Fund	884,186	751,437
Subtotal	3,072,489	2,690,220
Total financial assets	₩5,257,974	₩4,896,695
Financial liabilities:		
Derivative liabilities	₩477	₩-
Financial liabilities measured at amortized cost		
- Short-term borrowings	26,577	27,066
- Current portion of long-term borrowings	51,225	5,285
- Long-term borrowings	54,610	90,954
- Trade and other payables	585,815	353,881
- Lease liabilities	45,759	43,306
- Liabilities for non-controlling interests	2,616	2,836
Subtotal	766,602	523,328
Total financial liabilities	₩767,079	₩523,328

<sup>1)</sup> As of June 30, 2020, money market trust etc. worth ₩630,791 million (as of December 31, 2019: ₩455,400 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

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

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

① As of June 30, 2020

In millions of Korean won	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1)</sup>	₩1,985,148	₩-	₩1,758,874	₩226,274
Fair value through other comprehensive income or loss	196,087	147,098	-	48,989
Derivative assets	4,250	-	4,250	-
Total	2,185,485	147,098	1,763,124	275,263
Derivative liabilities	477	-	477	-
Total	₩477	₩-	₩477	₩-

<sup>1)</sup> As of June 30, 2020, money market trust etc. worth ₩630,791 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

In millions of Korean won	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1)</sup>	₩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

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

There was no movement between levels of the fair value hierarchy for the 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:

In millions of Korean won	Six months ended June 30, 2020	Six months ended June 30, 2019
Beginning balance	₩300,427	₩262,026
Acquisition	4,713	19,400
Disposal	(32,722)	-
Reclassification	1,000	-
Changes in fair value	1,845	(2,473)
Ending balance	₩275,263	₩278,953

(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	₩-	₩-	₩-	₩12,549	₩-	₩12,549
Dividend income	7,677	9,143	-	-	-	16,820
Gain or loss on valuation	24,927	-	(12,207)	-	-	12,720
Gain or loss on disposal of long-term deposits	-	-	-	29,303	-	29,303
Interest expense	-	-	-	-	(3,012)	(3,012)
Reversal of impairment loss	-	-	-	17,279	-	17,279
Gain or loss on lease contract adjustments	-	-	-	-	142	142
Total	₩32,604	₩9,143	₩ (12,207)	₩59,131	₩ (2,870)	₩85,801
Other comprehensive income (loss) before tax:						
Net change in fair value	₩-	₩ (62,553)	₩-	₩-	₩-	₩ (62,553)

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	₩-	₩-	₩-	₩12,866	₩-	₩12,866
Dividend income	6,562	7,994	-	-	-	14,556
Gain or loss on valuation	21,655	-	(10,134)	-	-	11,521
Interest expense	-	-	-	-	(4,222)	(4,222)
Reversal of impairment loss	-	-	-	1,976	-	1,976
Gain or loss on lease contract adjustments	-	-	-	-	118	118
Total	₩28,217	₩7,994	₩ (10,134)	₩14,842	₩ (4,104)	₩36,815
Other comprehensive income (loss) before tax:						
Net change in fair value	₩-	₩18,327	₩-	₩-	₩-	₩18,327

## 24. Contingent Liabilities and Commitments

### (1) Litigation cases

As of June 30, 2020, the Group has 23 cases of pending litigations under progress where the Group is the defendant and the litigation value is ₩71,855 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of June 30, 2020, on the consolidated interim financial statements of the Group.

### (2) Commitments with financial institutions

Major commitments of the Group 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	120,300
Derivatives trading <sup>1)</sup>	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 five others	KRW	219,577
	KEB Hana Bank Bahrain branch	USD	6,600

<sup>1)</sup> 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 Group 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	1,412,761	Housing distribution guarantee, etc.
Korea Trade Insurance Corporation	USD	65,594	Export guarantee insurance
Seoul Guarantee Insurance	KRW	4,020	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	15,955	Escrow deposit guarantee
Liberty Mutual and one other	USD	402	Payment guarantees on license bond
KEB Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of June 30, 2020, the Group currently holds inventory from Alokozay International Limited worth ₩20,788 million as collateral in order to improve collection of receivables.

As of June 30, 2020, the Group 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 Group 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
Payment guarantee for deductibles (Jeongeup branch and nine other branches)	Korea Special Sales Association	2,691	-
Total		₩151,571	₩78,436

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

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
Property, plant and equipment	₩23,202	₩3,395	₩3,395	Korea Technology Finance Corporation("KOTEC"), etc.	Establishment of leasehold rights to leasehold deposits
	90,297	3,488	4,186	Wonju City-Hall	Establishment of right to collateral security through a government grant
	57,487	11,042	52,000	KEB Hana Bank, etc.	Short-term, current portion of long-term borrowings and long-term borrowings
	17,321	12,000	24,000	KEB Hana Bank	Short-term borrowings
Property, plant and equipment	29,352	2,833	15,500	Korea Development Bank ("KDB")	Current portion of long-term borrowings
Investment property	5,262	708			Long-term borrowings
Investment property	402,228	20,948	22,922	MetLife Insurance, etc.	Establishment of right to collateral security and leasehold rights 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	₩634,286	₩55,011	₩131,140		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of June 30, 2020, are as follows:

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

As of June 30, 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 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
	Government subsidies	4
	Security deposits for checking accounts, etc.	1,801
Total		₩110,942

#### (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 ₩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.

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 ₩101,491 million as of June 30, 2020 (₩62,630 million as of December 31, 2019) and ₩39,609 million as of June 30, 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 June 30, 2020, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services, Inc.

The Group is currently operating Starfield Suwon, Inc. Corporation after establishing the joint venture under 50:50 ratio with 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 June 30, 2020, the Group 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.

As of June 30, 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 for a portion of the area when logistics facilities developed by Yongin Jungsim are supplied. 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 June 30, 2020, the Group has recognized, in relation to the above event, inventory valuation loss allowance of ₩2,031 million and refund liabilities of ₩35 million.

In December 2019, the Coalition Against Korean Cigarettes (a coalition of Cheyenne International and Xcaliber International) has submitted a petition to the United States Department of Commerce and the United States International Trade Commission requesting an investigation into export dumping and industrial damages in relation to the Korean 4<sup>th</sup> tier cigarettes (cigarettes produced by small manufacturers) the Group has manufactured and exported to the United States. The products subject to the investigation are 4<sup>th</sup> tier cigarettes 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 4<sup>th</sup> tier cigarettes from South Korea on the 15<sup>th</sup> of July, 2020. Commerce preliminarily determined that the only known exporter from South Korea (the Parent company) has dumped 4<sup>th</sup> 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 Group to predict the exact date at this point in time. The Group does not expect the results of this investigation to have a material effect on its consolidated 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-Vapor (device, exclusive sticks, exclusive liquid cartridges and accessories for Lil Plus, Lil Mini, Lil Hybrid and Lil Vapor) product lines.

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

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

As of June 30, 2020, tax investigations are under way for subsidiaries in Indonesia (PT Trisakti Purwosari Makmur and PT KT&G Indonesia) and a subsidiary in Turkey (KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.).



## 25. 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	₩587,333	₩598,299
Adjustments:		
Employee welfare	2,115	1,399
Retirement benefits	27,159	25,025
Loss on valuation or obsolescence of inventories	10,164	2,899
Depreciation	95,551	88,992
Amortization	5,622	1,523
Impairment loss reversal on trade and other receivables	(17,279)	(1,976)
Loss on foreign currency translation	32,155	11,939
Loss on valuation of derivatives	17,773	11,244
Loss on disposal of property, plant and equipment	1,776	329
Loss on impairment of property, plant and equipment	479	464
Loss on disposal of intangible assets	112	17
Loss on impairment of intangible assets	23	-
Loss on disposal of investment properties	144	-
Other expenses, etc.	10,364	16,365
Finance cost	9,000	11,513
Income tax expense	230,222	234,655
Gain on foreign currency translation	(12,522)	(46,304)
Gain on valuation of derivatives	(5,566)	(1,110)
Gain on disposal of property, plant and equipment	(623)	(2,113)
Gain on disposal of intangible assets	-	(3)
Other income, etc.	(51,081)	(141)
Finance income	(89,587)	(56,368)
Share of gain of associates and joint ventures	(4,605)	(1,891)
Changes in working capital:		
Decrease(increase) in trade and other receivables	17,959	(112,371)
Increase in derivatives	(13,704)	(9,433)
Decrease in inventories	44,412	120,926
Decrease in accrued tobacco excise and other taxes	101,552	60,348
Increase in advance payments	(82,821)	(79,627)
Increase in prepaid expenses	(10,331)	(9,117)
Increase in trade and other payables	56,879	64,407
Increase(decrease) in advance receipts	10,395	(29,352)
Increase in tobacco excise and other taxes payable	271,157	496,877
Decrease in provision for site restoration	(3,572)	-
Decrease in net defined benefit liabilities	(2,196)	(1,437)
Cash generated from operations	₩1,238,459	₩1,395,978

(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	₩ (2,348)	₩61,514
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 Group has presented the inflows and outflows from current financial instruments that have large total amounts and short maturities due to frequent transactions as a net increase/decrease amount.

## 26. Subsequent Events

(1) On 15<sup>th</sup> July, 2020, the Securities & Futures Commission ('SFC' herein) passed a resolution regarding accounting issues of the Group for the reporting period from 2011 to 2018 in accordance with the Act on External Audit of Stock Companies. The resolution passed by the SFC included agendas such as the Group being designated an external auditor for 1 year, being restricted from issuing securities for 2 months as well as recommending that the Group prepares 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 28<sup>th</sup> July, 2020, the Group will submit a plan of action by the 28<sup>th</sup> August, 2020, and make adjustments to the Company's ledger and consolidated financial statements in accordance with the results of such measures.

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