



KT&G Corporation and Subsidiaries

Review Report on Consolidated Interim Financial Statements

**Third Quarter of the 34th Fiscal Year
From January 1, 2020, to September 30, 2020**

**Third Quarter of the 33rd Fiscal Year
From January 1, 2019, to September 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 November 13, 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 September 30, 2020, the related condensed consolidated statements of income and comprehensive income for the three months and nine months ended September 30, 2020 and 2019, changes in equity and cash flows for the nine months ended September 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'.

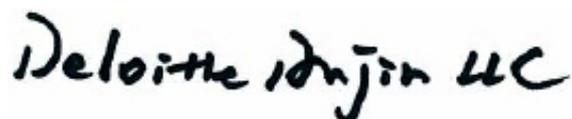
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Deloitte.

Other matters

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

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

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

November 13, 2020

This report is effective as of November 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

Third Quarter of the 34th Fiscal Year
from January 1, 2020, to September 30, 2020

Third Quarter of the 33rd Fiscal Year
from January 1, 2019, to September 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 September 30, 2020, and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	September 30, 2020	December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	23	₩1,064,211,114,371	₩891,306,145,983
Current other financial assets	23,24	426,321,517,154	397,949,201,546
Current fair value through profit or loss	23	1,159,770,164,708	1,239,263,067,528
Trade and other receivables	5,16,22,23,24	1,528,983,739,936	1,023,385,660,122
Derivative assets	23,24	5,364,929,776	2,276,640,206
Inventories	6,24	2,287,224,993,291	2,447,214,219,082
Refund assets and others		2,188,771,992	3,027,268,752
Accrued tobacco excise and other taxes		252,445,046,740	291,481,567,634
Advance payments	24	172,158,731,130	83,696,244,207
Prepaid expenses		45,733,392,683	33,345,254,566
Assets held for sale	4,22,24	4,246,922,005	4,246,922,005
Total current assets		₩6,948,649,323,786	₩6,417,192,191,631
Non-current assets:			
Long-term other financial assets	23,24	₩10,253,461,430	₩4,480,027,000
Long-term deposits in MSA Escrow Fund	23,24	922,547,824,746	751,437,124,245
Long-term fair value through profit or loss	23	245,987,581,311	251,895,325,773
Long-term trade and other receivables	5,23,24	84,807,862,895	77,062,030,242
Fair value through other comprehensive income or loss	23,24,25	214,148,061,156	257,639,840,085
Investments in associates and joint ventures	4,7,22,24,25	53,347,743,722	49,393,336,819
Property, plant and equipment	8,24,25	1,775,150,231,431	1,753,357,780,790
Intangible assets	9	92,020,406,728	89,693,691,059
Investment properties	10,24,25	950,975,956,695	885,325,430,794
Right-of-use assets	11	46,316,238,366	45,483,777,486
Long-term advance payments	24	111,995,178,772	72,519,228,473
Long-term prepaid expenses		7,130,862,145	7,464,781,189
Deferred income tax assets		54,261,906,971	49,153,499,355
Total non-current assets		₩4,568,943,316,368	₩4,294,905,873,310
Total assets		₩11,517,592,640,154	₩10,712,098,064,941

“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 September 30, 2020, and December 31, 2019

<i>In Korean won</i>	<i>Notes</i>	September 30, 2020	December 31, 2019
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Short-term borrowings	12,23,24	₩23,477,399,530	₩27,066,108,741
Current portion of long-term borrowings	12,23,24	51,315,250,229	5,284,509,248
Trade and other payables	23,25	960,629,774,736	656,582,586,262
Current lease liabilities	23	19,393,664,050	18,909,138,677
Advance receipts	16,22,24	82,294,521,654	77,028,657,918
Current refund liabilities and provisions	14,24	30,457,943,487	26,666,515,900
Current income tax liabilities		234,318,093,267	212,538,102,130
Tobacco excise and other taxes payables	25	961,822,842,107	576,018,441,937
Total current liabilities	12,23,24	₩2,363,709,489,060	₩1,600,094,060,813
Non-current liabilities:			
Long-term borrowings	12,23,24	₩53,783,485,825	₩90,954,077,109
Long-term trade and other payables	23,24	51,362,599,590	59,638,008,450
Long-term lease liabilities	23	23,902,625,369	24,396,626,259
Long-term advance receipts		4,784,798,244	4,154,633,329
Net defined benefit liabilities	13	130,820,490,892	91,082,736,864
Long-term refund liabilities and provisions	14,24	2,911,058,610	3,090,174,123
Deferred income tax liabilities		126,094,656,230	129,918,339,005
Non-controlling interests liabilities	23	2,176,458,636	2,835,710,820
Total non-current liabilities		₩395,836,173,396	₩406,070,305,959
Total liabilities		₩2,759,545,662,456	₩2,006,164,366,772
Equity:			
Ordinary shares		₩954,959,485,000	₩954,959,485,000
Other capital surplus(deficit)		(29,556,277,161)	(29,556,277,161)
Treasury shares		(531,618,093,579)	(318,789,449,459)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		5,962,074,791,763	5,671,479,866,186
Retained earnings	15	1,816,818,336,258	1,843,577,322,126
Equity attributable to owners of the Parent Company		₩8,701,572,296,187	₩8,650,565,000,598
Non-controlling interests		56,474,681,511	55,368,697,571
Total equity		₩8,758,046,977,698	₩8,705,933,698,169
Total liabilities and equity		₩11,517,592,640,154	₩10,712,098,064,941

“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 nine months ended September 30, 2020, and 2019

In Korean won	Notes	2020		2019	
		Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Sales	4,16,24	₩1,463,411,667,167	₩3,960,664,157,820	₩1,322,181,453,028	₩3,765,003,706,111
Cost of sales	17	(635,290,889,385)	(1,694,330,705,218)	(560,763,283,794)	(1,574,539,522,194)
Gross profit		828,120,777,782	2,266,333,452,602	761,418,169,234	2,190,464,183,917
Selling, general and administrative expense	17	(393,472,831,520)	(1,121,940,898,059)	(378,952,339,161)	(1,060,771,989,884)
Operating profit	4	434,647,946,262	1,144,392,554,543	382,465,830,073	1,129,692,194,033
Other income	18	12,188,964,491	105,520,449,908	79,521,212,138	140,837,554,846
Other expense	18	(60,381,879,861)	(131,095,187,700)	(30,347,021,744)	(52,680,878,165)
Finance income	19,23	13,017,057,685	102,603,586,484	19,409,607,386	75,777,134,051
Finance cost	19,23	(3,883,265,866)	(12,883,135,668)	(2,440,280,369)	(13,953,600,317)
Share of net profit of associates and joint ventures	7	(138,895,099)	4,466,569,519	1,675,638,191	3,566,909,124
Profit before income tax		395,449,927,612	1,213,004,837,086	450,284,985,675	1,283,239,313,572
Income tax expense	20	(117,371,070,078)	(347,593,186,260)	(128,211,055,539)	(362,866,552,807)
Profit for the period		₩278,078,857,534	₩865,411,650,826	₩322,073,930,136	₩920,372,760,765
Other comprehensive income (loss) after income tax:		₩3,216,870,530	₩(43,518,065,977)	₩(12,399,918,872)	₩13,896,330,053
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities	15	334,586,407	(2,812,680,941)	467,544,704	(13,034,381,953)
Gain (loss) on valuation of fair value through other comprehensive income or loss		15,114,254,200	(30,349,887,723)	(11,589,311,243)	1,668,752,437
Capital changes in equity method	7	(1,670,707)	(34,849,753)	(3,772,596)	22,846,536
Items that are or may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		(12,230,090,855)	(10,569,679,971)	(1,274,379,737)	25,239,113,033
Capital changes in equity method	7	(208,515)	249,032,411	-	-
Total comprehensive income for the period		₩281,295,728,064	₩821,893,584,849	₩309,674,011,264	₩934,269,090,818
Profit attributable to:					
Owners of the Parent Company		₩278,212,471,289	₩864,323,198,206	₩320,821,168,883	₩916,634,947,095
Non-controlling interests		(133,613,755)	1,088,452,620	1,252,761,253	3,737,813,670
Total		₩278,078,857,534	₩865,411,650,826	₩322,073,930,136	₩920,372,760,765
Other comprehensive income for the period attributable to:					
Owners of the Parent Company		₩281,423,962,689	₩820,787,600,909	₩308,424,176,094	₩930,524,410,842
Non-controlling interests		(128,234,625)	1,105,983,940	1,249,835,170	3,744,679,976
Total		₩281,295,728,064	₩821,893,584,849	₩309,674,011,264	₩934,269,090,818
Earnings per share:					
Basic and diluted	21	₩2,214	₩6,845	₩2,541	₩7,260

“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 nine months ended September 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
Balance at January 1, 2019	₩954,959,485,000	₩ (29,719,795,353)	₩ (328,157,286,128)	₩513,775,933,891	₩5,355,627,500,098	₩1,612,794,013,734	₩8,079,279,851,242	₩53,800,373,739	₩8,133,080,224,981
Total comprehensive income (loss) for the period:									
Profit for the period	-	-	-	-	-	916,634,947,095	916,634,947,095	3,737,813,670	920,372,760,765
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(13,039,240,008)	(13,039,240,008)	4,858,055	(13,034,381,953)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	1,668,752,437	-	1,668,752,437	-	1,668,752,437
Exchange differences on translating foreign operations	-	-	-	-	25,237,104,782	-	25,237,104,782	2,008,251	25,239,113,033
Capital changes in equity method	-	-	-	-	22,846,536	-	22,846,536	-	22,846,536
Sum of other comprehensive income (loss) for the period	-	-	-	-	26,928,703,755	(13,039,240,008)	13,889,463,747	6,866,306	13,896,330,053
Total comprehensive income for the period	-	-	-	-	26,928,703,755	903,595,707,087	930,524,410,842	3,744,679,976	934,269,090,818
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(505,060,508,000)	(505,060,508,000)	-	(505,060,508,000)
Transfer to other reserve	-	-	-	-	285,966,201,122	(285,966,201,122)	-	-	-
Changes in non-controlling interests, etc	-	163,518,192	-	-	-	-	163,518,192	(199,403,195)	(35,885,003)
Total transactions with owners of the Parent Company	-	163,518,192	-	-	285,966,201,122	(791,026,709,122)	(504,896,989,808)	(199,403,195)	(505,096,393,003)
Balance at September 30, 2019	₩954,959,485,000	₩ (29,556,277,161)	₩ (328,157,286,128)	₩513,775,933,891	₩5,668,522,404,975	₩1,725,363,011,699	₩8,504,907,272,276	₩57,345,650,520	₩8,562,252,922,796

“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 nine months ended September 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
Balance at January 1, 2020	₩954,959,485,000	₩ (29,556,277,161)	₩ (318,789,449,459)	₩528,894,053,906	₩5,671,479,866,186	₩1,843,577,322,126	₩8,650,565,000,598	₩55,368,697,571	₩8,705,933,698,169
Total comprehensive income (loss) for the period:	-	-	-	-	-	864,323,198,206	864,323,198,206	1,088,452,620	865,411,650,826
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(2,830,510,289)	(2,830,510,289)	17,829,348	(2,812,680,941)
Gain (loss) on valuation of fair value through other comprehensive income or loss	-	-	-	-	(30,349,887,723)	-	(30,349,887,723)	-	(30,349,887,723)
Exchange differences on translating foreign operations	-	-	-	-	(10,569,381,943)	-	(10,569,381,943)	(298,028)	(10,569,679,971)
Capital changes in equity method	-	-	-	-	214,182,658	-	214,182,658	-	214,182,658
Sum of other comprehensive income (loss) for the period	-	-	-	-	(40,705,087,008)	(2,830,510,289)	(43,535,597,297)	17,531,320	(43,518,065,977)
Total comprehensive income (loss) for the period	-	-	-	-	(40,705,087,008)	861,492,687,917	820,787,600,909	1,105,983,940	821,893,584,849
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)	-	(556,951,661,200)
Acquisition of treasury shares	-	-	(212,828,644,120)	-	-	-	(212,828,644,120)	-	(212,828,644,120)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-	-	-
Total transactions with owners of the Parent Company	-	-	(212,828,644,120)	-	331,300,012,585	(888,251,673,785)	(769,780,305,320)	-	(769,780,305,320)
Balance at September 30, 2020	₩954,959,485,000	₩ (29,556,277,161)	₩ (531,618,093,579)	₩528,894,053,906	₩5,962,074,791,763	₩1,816,818,336,258	₩8,701,572,296,187	₩56,474,681,511	₩8,758,046,977,698

“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 nine months ended September 30, 2020, and 2019

<i>In Korean won</i>	<i>Notes</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cash flows from operating activities		₩1,207,950,126,997	₩958,830,691,474
Cash generated from operations	25	1,535,132,278,222	1,276,296,117,826
Income taxes paid		(327,182,151,225)	(317,465,426,352)
Cash flows from investing activities		(256,068,572,818)	(409,046,518,610)
Interest received		16,944,794,458	18,743,548,572
Dividends received		21,146,812,677	19,266,291,656
Decrease in other financial assets		457,840,300,000	471,000,000,000
Decrease in current fair value through profit or loss		95,729,896,389	-
Decrease in long-term fair value through profit or loss		32,947,572,487	7,033,109
Decrease in long-term deposits in MSA Escrow Fund		30,190,725,542	-
Disposal of property, plant and equipment		8,656,508,721	3,370,600,728
Disposal of intangible assets		2,620,438,081	100,234,554
Disposal of investment properties		4,407,486,213	-
Decrease in fair value through other comprehensive income or loss		2,134,000,000	266,458,845
Disposal of investments in associates and joint ventures		21,193,630,212	24,650,929,551
Collection of loans		10,632,537,668	9,587,795,735
Collection of guarantee deposits		585,868,012	1,398,465,450
Collection of finance lease receivables		416,505,581	-
Increase in other financial assets		(491,979,456,096)	(313,022,470,000)
Increase in current fair value through profit or loss		(6,000,000,000)	(137,399,594,505)
Increase in long-term fair value through profit or loss		(7,622,500,000)	(50,665,078,553)
Increase in long-term deposits in MSA Escrow Fund		(166,094,254,862)	(79,880,336,587)
Acquisition of property, plant and equipment		(152,109,855,178)	(173,322,661,072)
Acquisition of intangible assets		(26,987,072,835)	(13,253,121,363)
Acquisition of investment properties		(77,540,719,255)	(178,826,598,402)
Acquisition of right-of-use assets		(363,629,731)	-
Increase in fair value through other comprehensive income or loss		-	(1,550,000,000)
Acquisition of investments in associates and joint ventures		(22,000,000,000)	-
Increase in loans		(10,282,367,785)	(6,502,900,265)
Increase in guarantee deposits		(535,793,117)	(3,015,116,063)
Cash flows from financing activities		(779,526,390,507)	(619,260,388,333)
Dividends paid		(556,951,661,200)	(505,060,508,000)
Interest paid		(1,610,690,559)	(2,105,621,670)
Repayment of lease liabilities		(13,796,029,428)	(15,605,970,477)
Repayment of borrowings		(127,394,268,223)	(267,438,897,086)
Acquisition of treasury shares		(212,828,644,120)	-
Capital increase with share premium		824,000	-
Increase in borrowings		133,054,079,023	170,950,608,900
Net increase(decrease) in cash and cash equivalents		172,355,163,672	(69,476,215,469)
Cash and cash equivalents at January 1		891,306,145,983	932,969,110,015
Effect of exchange rate fluctuation on cash and cash equivalents		549,804,716	9,001,513,205
Cash and cash equivalents at September 30		₩1,064,211,114,371	₩872,494,407,751

“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 September 30, 2020, and December 31, 2019, and for the nine months ended September 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 September 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 September 30, 2020, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	17,413,169	12.68
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,070,129	2.24
Treasury shares	13,212,574	9.62
Others	94,086,140	68.53
Total	137,292,497	100.00

1.2 Consolidated Subsidiaries

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

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

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

²⁾ The percentage of ownership, shown above, does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of September 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 information¹⁾ for consolidated subsidiaries as of and for the nine months ended September 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	₩2,277,638	₩246,734	₩1,091,026	₩124,146	₩132,542
Yungjin Pharm. Co., Ltd.	200,390	82,294	157,748	2,308	2,345
Tae-a Industry Co., Ltd.	54,713	6,143	14,656	(329)	(342)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	26,468	48,363	5,942	(13,323)	(8,036)
Korea Tabacos do Brasil Ltda.	1,636	146	-	(193)	(813)
KT&G Pars	195	56,911	-	(572)	529
KT&G Rus L.L.C.	124,070	52,992	36,124	3,270	(14,872)
KT&G USA Corporation	127,555	89,371	181,850	14,342	14,340
Cosmococ Co., Ltd.	49,247	33,770	49,822	1,564	1,564
Renzoluc Pte., Ltd.	129,306	31,888	-	(562)	(5,882)
PT KT&G Indonesia	84,446	110,463	80,632	(23,700)	(22,481)
SangSang Stay, Inc.	44,901	50,762	4,727	(7,053)	(7,053)
KT&G Global Rus L.L.C.	61,205	62,861	21,413	6,572	7,652
Gwacheon SangSang PFV	70,823	66,381	-	(1,345)	(1,345)
PT Trisakti Purwosari Makmur	223,035	82,377	61,218	3,451	(4,195)
PT Nusantara Indah Makmur	76	-	-	-	(4)
KGC Yebon Corporation	51,893	5,726	9,141	731	621
KGC Life & Gin Co., Ltd.	37,315	14,036	38,363	2,637	2,635
Jilin Hanzheng Ginseng Co., Ltd.	50,364	506	7,985	(978)	841
Cheong Kwan Jang Taiwan Corporation	22,660	19,969	23,323	(135)	(6)
Korean Red Ginseng Corp., Inc.	18,671	7,838	20,362	2,226	2,234
Korea Ginseng (China) Corp.	33,051	22,152	45,445	(258)	141
Korea Ginseng Corporation Japan	7,271	5,317	7,943	543	602
K&I HK Co., Ltd.	66	221	-	(47)	(48)
K&I China Co., Ltd.	₩838	₩4,382	₩808	₩ (1,065)	₩ (1,156)

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

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

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

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

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

2. Significant Accounting Policies

2.1 Basis of Preparation

The 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 September 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 November 5, 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 ₩168 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 September 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 nine months ended September 30, 2020 and 2019, are as follows:

① For the nine months ended September 30, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩2,486,499	₩1,241,812	₩395,065	₩213,310	₩4,336,686	₩ (376,022)	₩3,960,664
Intersegment sales	(274,220)	(88,365)	(11,154)	(2,283)	(376,022)	376,022	-
External sales	2,212,279	1,153,447	383,911	211,027	3,960,664	-	3,960,664
Operating profit	823,572	176,216	162,961	(1,728)	1,161,021	(16,628)	1,144,393

② For the nine months ended September 30, 2019

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩2,313,975	₩1,261,162	₩259,103	₩237,892	₩4,072,132	₩ (307,128)	₩3,765,004
Intersegment sales	(204,647)	(86,910)	(10,850)	(4,721)	(307,128)	307,128	-
External sales	2,109,328	1,174,252	248,253	233,171	3,765,004	-	3,765,004
Operating profit	790,096	213,507	114,700	3,186	1,121,489	8,203	1,129,692

(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 Sept 30	Nine months ended Sept 30	Three months ended Sept 30	Nine months ended Sept 30	
Revenue recognized at a point in time:						
Tobacco	Wholesale, retail		₩832,847	₩2,202,634	₩723,209	₩2,102,211
	Direct sales		3,357	9,645	1,979	7,117
Ginseng	Wholesale, retail		231,412	597,989	239,967	645,742
	Direct sales		216,185	555,458	203,724	528,510
Others	Wholesale, retail		66,625	204,140	69,994	211,382
	Direct sales		2,397	6,887	7,409	20,273
	Subtotal		1,352,823	3,576,753	1,246,282	3,515,235
Revenue recognized over time:						
Real estate	Sales and rental		110,589	383,911	75,616	248,253
Others	Services, etc.		-	-	284	1,516
	Subtotal		110,589	383,911	75,900	249,769
	Total		₩1,463,412	₩3,960,664	₩1,322,182	₩3,765,004

(4) Segment information on assets and liabilities as of September 30, 2020 and December 31, 2019, are as follows:

① As of September 30, 2020

<i>In millions of Korean won</i>	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩5,454,843	₩2,116,311	₩1,292,906	₩286,270	₩9,150,330	₩ (1,935,721)	₩7,214,609
Investments in associates and joint ventures	-	-	50,180	3,168	53,348	-	53,348
Assets held for sale	4,247	-	-	-	4,247	-	4,247
Subtotal	5,459,090	2,116,311	1,343,086	289,438	9,207,925	(1,935,721)	7,272,204
Common assets							4,245,389
Total assets							₩11,517,593
Acquisition of non-current assets	222,814	27,307	-	5,344	255,465	(979)	254,486
Liabilities:							
Segment liabilities	₩2,325,141	₩202,572	₩1,381	₩161,904	₩2,690,998	₩ (460,910)	₩2,230,088
Common liabilities							529,458
Total liabilities							₩2,759,546

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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩3,541,608	₩419,056	₩3,960,664	₩3,403,859	₩361,145	₩3,765,004
Non-current assets	4,430,985	137,958	4,568,943	4,052,650	143,552	4,196,202

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 September 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	September 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Trade receivables	₩1,445,708	₩-	₩941,104	₩-
Loans	12,008	37,269	11,302	38,110
Other receivables	28,380	3,567	24,617	1,486
Guarantee deposits	39,408	43,895	40,185	37,118
Accrued income	2,927	77	5,734	24
Finance lease receivables	553	-	444	324
Total	₩1,528,984	₩84,808	₩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 September 30, 2020 and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	September 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Total carrying amount	₩1,625,496	₩85,057	₩1,144,497	₩77,142
Allowances:				
Trade receivables	(95,133)	-	(120,385)	-
Other receivables	(1,379)	(249)	(726)	(80)
Total allowances	(96,512)	(249)	(121,111)	(80)
Net trade and other receivables	₩1,528,984	₩84,808	₩1,023,386	₩77,062

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩121,191	₩82,083
Impairment loss (reversal)	(20,772)	3,844
Write off	(213)	(295)
Net exchange difference, etc.	(3,445)	2,126
Ending balance	₩96,761	₩87,758

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 September 30, 2020, and December 31, 2019, are as follows:

<i>In millions of Korean won</i>	September 30, 2020			December 31, 2019		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩97,546	₩ (14,064)	₩83,482	₩66,241	₩ (14,366)	₩51,875
Finished goods	809,438	(10,557)	798,881	823,865	(8,798)	815,067
Work in progress	488,175	(1,306)	486,869	644,692	(647)	644,045
Raw materials	822,605	(1,934)	820,671	836,871	(2,577)	834,294
Supplies	41,036	-	41,036	33,257	-	33,257
By-products	7,522	-	7,522	7,131	-	7,131
Buildings under construction	10,542	-	10,542	6,378	-	6,378
Completed buildings	1,490	-	1,490	2,215	-	2,215
Sites for construction of real estate	9,114	-	9,114	10,274	-	10,274
Goods in transit	27,618	-	27,618	42,678	-	42,678
Total	₩2,315,086	₩ (27,861)	₩2,287,225	₩2,473,602	₩ (26,388)	₩2,447,214

(2) The amount of loss on valuation and obsolescence of inventories recognized for the nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cost of sales:		
Loss on valuation of inventories	₩3,354	₩4,497
Loss on obsolescence of inventories	10,998	10,319
Other expense:		
Loss on obsolescence of inventories	517	741
Total	₩14,869	₩15,557

7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures for the nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩49,393	₩83,989
Acquisition	22,000	-
Disposal	(21,194)	(24,651)
Equity method gains and losses	4,467	3,567
Dividends	(613)	(1,121)
Reclassification	(1,000)	-
Changes in equity method capital	295	38
Ending balance	₩53,348	₩61,822

8. Property, Plant and Equipment

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩1,753,358	₩1,818,788
Acquisition	150,095	166,494
Disposal/obsolescence/impairment loss	(7,944)	(2,561)
Depreciation	(114,497)	(107,726)
Reclassification, etc.	(5,862)	(142,710)
Ending balance	₩1,775,150	₩1,732,285

9. Intangible Assets

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩89,694	₩71,954
Acquisition	27,574	14,058
Disposal/obsolescence/impairment loss	(2,854)	(115)
Amortization	(8,364)	(3,083)
Reclassification, etc.	(14,030)	3,436
Ending balance	₩92,020	₩86,250

10. Investment property

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩885,325	₩495,049
Acquisition	77,541	178,827
Disposal/obsolescence/impairment loss	(4,367)	-
Depreciation	(13,968)	(8,757)
Reclassification, etc.	6,445	142,176
Ending balance	₩950,976	₩807,295

11. Right-of-use assets

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩45,484	₩-
Changes in accounting policies	-	51,753
Acquisition	19,796	13,426
Disposal	(686)	(1,125)
Depreciation	(17,359)	(17,696)
Net exchange rate differences, etc.	(919)	646
Ending balance	₩46,316	₩47,004

12. Borrowings

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

<i>In millions of Korean won</i>	Lender	Annual interest rate (%)	September 30, 2020	December 31, 2019
Borrowings	KEB Hana Bank	FTP+0.894~1.874	₩5,000	₩7,200
		Bank Debenture(6 months) +1.970~2.214	10,000	10,000
	KEB Hana Bank Bahrain branch	3M LIBOR+1.1	6,438	6,359
	Korea Development Bank	Industrial Financial Debenture (1 year)+0.9	1,000	2,500
	Subtotal		22,438	26,059
Consumer credit agreements ¹⁾	NH Nonghyup Bank, etc.	-	803	763
	KEB Hana Card	-	236	244
	Subtotal		1,039	1,007
Total			₩23,477	₩27,066

¹⁾ 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. No interest expenses are incurred related to these payment guarantees (see Note 24 (3)).

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

<i>In millions of Korean won</i>	Lender	Maturity	Annual interest rate (%)	September 30, 2020	December 31, 2019
Other financial loan for working capital	NH Nonghyup Bank	2021.03.03~ 2025.06.22	-	₩60,425	₩47,015
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03	3,300	4,125
			MOR(6 months) +1.58	3,201	4,000
	Korea Development Bank	2020.11.19~ 2021.08.19	2.33~2.90	2,833	5,759
Redeemable convertible preferred shares ^{1) 2)}				35,340	35,340
Total				105,099	96,239
Consolidated statements of financial position:					
Current ²⁾				51,315	5,285
Non-current				53,784	90,954
Total				₩105,099	₩96,239

¹⁾ Redeemable convertible preferred shares as of September 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.

²⁾ As of September 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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Defined benefit plans:				
Current service cost	₩13,248	₩39,434	₩12,467	₩36,267
Net interest on net defined benefit liabilities	558	1,531	728	1,953
Prior service cost and gain/loss on settlement	-	-	14	14
Subtotal	13,806	40,965	13,209	38,234
Defined contribution plan:				
Contributions recognized as expense	1,826	5,396	1,960	5,645
Other long-term employee benefits:				
Current service cost, etc.	981	2,826	798	2,397
Termination benefits:				
Voluntary retirements, etc.	-	2,589	1	3,828
Total	₩16,613	₩51,776	₩15,968	₩50,104

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

<i>In millions of Korean won</i>	September 30, 2020	December 31, 2019
Present value of defined benefit obligation	₩574,955	₩542,699
Fair value of plan assets	(444,135)	(451,616)
Total	₩130,820	₩91,083

14. Refund Liabilities and Provisions

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

<i>In millions of Korean won</i>	September 30, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩2,623	₩-	₩3,694	₩-
Refund liabilities	13,639	1,384	11,790	1,584
Provision for site restoration	13,403	1,210	9,680	1,013
Provision for financial guarantee	-	315	-	492
Provision for greenhouse gases	109	-	-	-
Provision for others	684	2	1,503	1
Total	₩30,458	₩2,911	₩26,667	₩3,090

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

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,694	₩2,768	₩ (3,839)	₩2,623
Refund liabilities	13,374	5,609	(3,960)	15,023
Provision for site restoration	10,693	8,932	(5,012)	14,613
Provision for financial guarantee	492	-	(177)	315
Provision for greenhouse gases	-	109	-	109
Provision for others	1,504	-	(818)	686
Total	₩29,757	₩17,418	₩ (13,806)	₩33,369

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

<i>In millions of Korean won</i>	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩3,497	₩17,324	₩ (11,478)	₩9,343
Refund liabilities	9,948	7,707	(5,119)	12,536
Provision for site restoration	4,387	361	(438)	4,310
Provision for financial guarantee	700	-	(149)	551
Provision for greenhouse gases	-	-	-	-
Provision for others	413	1,710	(369)	1,754
Total	₩18,945	₩27,102	₩ (17,553)	₩28,494

15. Retained Earnings

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩1,843,577	₩1,612,794
Profit for the period	865,412	920,373
- Less: Non-controlling interests	(1,088)	(3,738)
Re-measurements of net defined benefit liabilities(after tax)	(2,813)	(13,034)
- Less: Non-controlling interests(after tax)	(18)	(5)
Dividends	(556,952)	(505,061)
Transfer to other reserve	(331,300)	(285,966)
Ending balance	₩1,816,818	₩1,725,363

16. Real Estate Sales Contract

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

① For the nine months ended September 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) ¹⁾	Cost (cumulative) ²⁾
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	61.18	₩1,188,501	₩1,186,638	₩726,005	₩291,704	₩301,331
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	60.58	112,057	106,759	64,671	25,987	38,901
Suwon hwaseo prugio brial	June 2020	September 2023	2.86	791,469	751,051	21,468	21,468	9,563
Total				₩2,092,027	₩2,044,448	₩812,144	₩339,159	₩349,795

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

²⁾ Excludes cumulative costs of ₩5,829 million for common infrastructure.

② For the nine months ended September 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) ¹⁾	Cost (cumulative)
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	25.41	₩1,188,870	₩1,187,006	₩301,647	₩189,058	₩123,533
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	25.21	112,060	106,762	26,912	16,985	16,155
Total				₩1,300,930	₩1,293,768	₩328,559	₩206,043	₩139,688

¹⁾ Excludes sales revenue for Dae-gu central Xi of ₩1,063 million for the nine months ended September 30, 2019 (construction has been completed as of September 30, 2019, but resale is underway due to cancellation of the sales contract).

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

① As of September 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)	₩726,005	₩603,760	₩122,245	₩-
Suwon hwaseo park prugio(Efficiency apartment)	64,671	44,819	19,852	-
Suwon hwaseo prugio briciel	21,468	76,496	-	55,028
Total	₩812,144	₩725,075	₩142,097	₩55,028

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	₩480,394	₩-	₩46,093
Suwon hwaseo park prugio(Efficiency apartment)	38,684	33,542	5,142	-
Total	₩472,985	₩513,936	₩5,142	₩46,093

(3) No material changes in estimated total contract revenues and total contract costs have occurred during the nine months ended September 30, 2020. Estimated total contract revenue and total contract cost of the ongoing sales contracts are based on the circumstances that have occurred till September 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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Changes in inventories	₩72,124	₩159,989	₩95,450	₩213,048
Raw materials etc. used and merchandise purchased	329,816	856,250	316,836	803,989
Salaries	172,167	481,134	162,847	449,391
Retirement and termination benefits	15,632	48,950	15,170	47,707
Depreciation	50,273	145,824	45,187	134,179
Amortization	2,742	8,364	1,560	3,083
Employee welfare	23,463	64,008	28,525	67,348
Advertising	67,411	187,002	66,342	182,784
Commissions	183,851	508,884	163,530	465,092
Other expenses	111,285	355,867	44,269	268,691
Total	₩1,028,764	₩2,816,272	₩939,716	₩2,635,312

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

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Salaries	₩113,245	₩321,036	₩107,273	₩298,434
Retirement and termination benefits	10,424	33,518	9,772	31,463
Employee welfare	15,788	43,139	18,339	44,718
Travel expenses	1,983	6,703	4,716	14,376
Communication cost	1,516	4,371	1,343	4,200
Utilities	3,006	8,135	2,804	7,918
Taxes and dues	2,100	27,798	2,880	26,201
Supplies	1,612	4,590	1,182	3,365
Rent	4,224	11,379	4,975	11,064
Depreciation	16,133	46,944	14,408	47,084
Amortization	2,687	8,220	1,509	2,941
Repairs and maintenance	1,720	5,321	1,166	3,314
Vehicles	1,728	5,014	1,839	5,099
Insurance	1,168	3,150	574	2,081
Commissions	118,491	334,655	101,956	289,442
Freight and custody	18,436	48,248	14,478	38,441
Conferences	759	2,469	1,145	3,583
Advertising	67,403	186,940	66,326	182,701
Education and training	1,156	3,576	1,787	5,303
Prizes and rewards	641	1,554	548	1,511
Cooperation	187	739	287	752
Research and development	13,341	35,993	13,845	32,991
Impairment loss (reversal of impairment loss) on trade receivables	(4,275)	(21,551)	5,800	3,790
Total	₩393,473	₩1,121,941	₩378,952	₩1,060,772

18. Other Income and Expense

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

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Gain on foreign currency transaction	₩4,162	₩71,700	₩9,026	₩22,416
Gain on foreign currency translation	-	8,588	52,967	91,519
Gain on valuation of derivatives	6,930	12,082	9,505	404
Reversal of impairment loss on other receivables	-	3	-	-
Gain on disposal of property, plant and equipment	106	730	64	2,177
Gain on disposal of intangible assets	-	-	-	3
Gain on disposal of investment property	534	534	-	-
Gain on lease contract adjustments	151	318	497	615
Reversal of provision for site restoration	-	-	15	32
Miscellaneous income	306	11,565	7,447	23,672
Total	₩12,189	₩105,520	₩79,521	₩140,838

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

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Loss on foreign currency transaction	₩7,097	₩19,319	₩1,214	₩6,024
Loss on foreign currency translation	45,851	74,072	-	4,187
Loss on valuation of derivatives	-	17,360	23,637	24,669
Loss on impairment of other receivables	782	782	21	54
Loss on disposal of property, plant and equipment	1,321	3,096	550	878
Loss on impairment of property, plant and equipment	-	479	1	465
Loss on disposal of intangible assets	99	211	-	17
Loss on impairment of intangible assets	-	23	-	-
Loss on disposal of investment properties	350	493	-	-
Donations	2,599	5,566	1,447	4,026
Loss on lease contract adjustments	4	29	147	147
Miscellaneous loss	2,279	9,665	3,330	12,214
Total	₩60,382	₩131,095	₩30,347	₩52,681

19. Finance Income and Cost

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

<i>In millions of Korean won</i>	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Finance income:				
Interest income ¹⁾	₩4,146	₩16,695	₩5,772	₩18,638
Dividend income	2,342	19,162	2,637	17,192
Gain on valuation of fair value through profit or loss	6,529	37,443	11,001	39,947
Gain on disposal of long-term deposits in MSA Escrow Fund	-	29,304	-	-
Total finance income	₩13,017	₩102,604	₩19,410	₩75,777
Finance cost:				
Interest expense	₩2,082	₩5,094	₩1,167	₩5,390
Loss on valuation of fair value through profit or loss	1,801	7,789	1,273	8,564
Total finance cost	₩3,883	₩12,883	₩2,440	₩13,954
Net finance income	₩9,134	₩89,721	₩16,970	₩61,823

¹⁾ 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 nine months ended September 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 nine months ended September 30, 2020 and 2019, are 28.66% and 28.28%, respectively.

21. EPS

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

	2020		2019	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Profit for the period attributable to owners of the Parent Company (in millions of Korean won)	278,212	864,323	320,821	916,635
Weighted-average number of ordinary shares outstanding (shares)	125,658,697	126,270,606	126,265,127	126,265,127
Basic and diluted EPS (in Korean won)	2,214	6,845	2,541	7,260

The Group has acquired 2,500,000 treasury shares through a transaction on exchange during the nine months ended September 30, 2020.

22. Related Parties

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

	September 30, 2020	December 31, 2019
Associates	LSK Global Pharma Services Co., Ltd.	LSK Global Pharma Services Co., Ltd.
	LitePharmTech Co., Ltd. ¹⁾	LitePharmTech Co., Ltd. ¹⁾
	- ²⁾	Yong In Jung Sim Co., Ltd.
	KORAMCO Ocheon Project Financial Investment Co., Ltd ³⁾	-
	KORAMCO Banpo Project Financial Investment Co., Ltd ³⁾	-
	KORAMCO Dongjak Project Financial Investment Co., Ltd ³⁾	-
Joint ventures	- ⁴⁾	KB Gimpo Logistics CR REIT Co., Ltd. ⁴⁾
	KORAMCO Private REIT 50 Fund ⁵⁾	KORAMCO Private REIT 50 Fund ⁵⁾
	KORAMCO Europe Private REIT 3-2 Fund ⁵⁾	KORAMCO Europe Private REIT 3-2 Fund ⁵⁾
	Starfield Suwon, Inc.	Starfield Suwon, Inc.

¹⁾ 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.

²⁾ Due to Yong In Jung Sim Co., Ltd's capital increase with share premium through dilutive secondary offerings during the nine months ended September 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 September 30, 2020.

³⁾ These are classified as investments in associates even though the Group's holdings in the invested companies are less than 20%, respectively. The Group has judged that it has significant influence over these invested companies since the Group has the right to nominate a member of the board of directors of each invested company. These investments have been newly acquired during the nine months ended September 30, 2020.

⁴⁾ 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. According to the liquidation of this equity investment, it has been excluded from the Group's related parties as of September 30, 2020.

⁵⁾ 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 no transactions with related parties such as sales of goods and services other than dividends. The details of dividends with related parties for the three months and nine months ended September 30, 2020, and 2019, are as follows:

In millions of Korean won		2020		2019	
		Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
Associates	JR REIT 5 Co., Ltd. ¹⁾	₩-	₩-	₩-	₩130
	JR REIT 8 Co., Ltd. ¹⁾	-	-	-	108
	JR REIT 10 Co., Ltd. ¹⁾	-	-	-	292
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	-	613	-	591
Total		₩-	₩613	₩-	₩1,121

¹⁾ According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the nine months ended December 31, 2019.

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

<i>In millions of Korean won</i>		September 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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>		Nine months ended September 30, 2020		Nine months ended September 30, 2019	
		Equity investment	Equity recovery ¹⁾	Collection of loans	Equity recovery ¹⁾
Associates	LSK Global Pharma Services Co., Ltd.	₩-	₩-	₩150	₩-
	JR REIT 5 Co., Ltd. ¹⁾	-	-	-	11,125
	JR REIT 8 Co., Ltd. ¹⁾	-	-	-	13,526
	KORAMCO Ocheon Project Financial Investment Co., Ltd	5,685	-	-	-
	KORAMCO Banpo Project Financial Investment Co., Ltd	5,306	-	-	-
	KORAMCO Dongjak Project Financial Investment Co., Ltd	1,850	-	-	-
	KORAMCO Amsa Project Financial Investment Co., Ltd	1,159	-	-	-
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. ¹⁾	-	3,356	-	-
	KORAMCO Private REIT 50 Fund ¹⁾	-	17,838	-	-
	Starfield Suwon, Inc.	8,000	-	-	-
Total		₩22,000	₩21,194	₩150	₩24,651

¹⁾ According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the 9 months ended September 30, 2020 and 2019.

(5) There are no payment guarantees provided between or among the related parties.

(6) As of September 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 September 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 nine months ended September 30, 2020 and 2019, are summarized as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Short-term and long-term employee benefits	₩16,157	₩11,621
Retirement benefits	1,607	1,466
Total	₩17,764	₩13,087

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 September 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 September 30, 2020, and December 31, 2019 are as follows:

<i>In millions of Korean won</i>	September 30, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand) ¹⁾	₩412,298	₩435,576
Other financial assets	436,575	402,429
Fair value through profit or loss ¹⁾	2,057,392	1,946,558
Trade and other receivables	1,613,792	1,100,448
Long-term deposits in MSA Escrow Fund	922,548	751,437
Derivative assets	5,365	2,277
Total	₩5,447,970	₩4,638,725

¹⁾ As of September 30, 2020, money market trust etc. worth ₩651,634 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 September 30, 2020, and December 31, 2019, are summarized as follows:

<i>In millions of Korean won</i>	September 30, 2020	December 31, 2019
Financial assets:		
Fair value through profit or loss ¹⁾	₩2,057,392	₩1,946,558
Fair value through other comprehensive income or loss	214,148	257,640
Derivative assets	5,365	2,277
Financial assets measured at amortized cost		
- Cash and cash equivalents ¹⁾	412,576	435,906
- Other financial assets	436,575	402,429
- Trade and other receivables	1,613,792	1,100,448
- Long-term deposits in MSA Escrow Fund	922,548	751,437
Subtotal	3,385,491	2,690,220
Total financial assets	₩5,662,396	₩4,896,695
Financial liabilities:		
Financial liabilities measured at amortized cost		
- Short-term borrowings	₩23,477	₩27,066
- Current portion of long-term borrowings	51,315	5,285
- Long-term borrowings	53,783	90,954
- Trade and other payables	591,627	353,881
- Lease liabilities	43,296	43,306
- Liabilities for non-controlling interests	2,176	2,836
Total financial liabilities	₩765,674	₩523,328

¹⁾ As of September 30, 2020, money market trust etc. worth ₩651,634 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 September 30, 2020, and December 31, 2019, are as follows:

① As of September 30, 2020

<i>In millions of Korean won</i>	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹⁾	₩2,057,392	₩-	₩1,829,704	₩227,688
Fair value through other comprehensive income or loss	214,148	167,267	-	46,881
Derivative assets	5,365	-	5,365	-
Total	₩2,276,905	₩167,267	₩1,835,069	₩274,569

¹⁾ As of September 30, 2020, money market trust etc. worth ₩651,634 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

② As of December 31, 2019

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

¹⁾ 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 nine months ended September 30, 2020, and 2019.

As of September 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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Beginning balance	₩300,427	₩262,026
Acquisition	7,623	52,215
Disposal	(35,082)	(274)
Reclassification	1,000	-
Changes in fair value	601	(3,215)
Ending balance	₩274,569	₩310,752

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

① For the nine months ended September 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	₩-	₩-	₩-	₩16,695	₩-	₩16,695
Dividend income	9,672	9,490	-	-	-	19,162
Gain or loss on valuation	29,654	-	(5,278)	-	-	24,376
Gain or loss on disposal of long-term deposits	-	-	-	29,304	-	29,304
Interest expense	-	-	-	-	(5,094)	(5,094)
Reversal of impairment loss	-	-	-	20,772	-	20,772
Gain or loss on lease contract adjustments	-	-	-	-	289	289
Total	₩39,326	₩9,490	₩ (5,278)	₩66,771	₩ (4,805)	₩105,504
Other comprehensive income (loss) before tax:						
Net change in fair value	₩-	₩ (42,358)	₩-	₩-	₩-	₩ (42,358)

② For the nine months ended September 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	₩-	₩-	₩-	₩18,638	₩-	₩18,638
Dividend income	8,992	8,201	-	-	-	17,193
Gain or loss on valuation	31,383	-	(24,265)	-	-	7,118
Interest expense	-	-	-	-	(5,390)	(5,390)
Reversal of impairment loss	-	-	-	(3,844)	-	(3,844)
Gain or loss on lease contract adjustments	-	-	-	-	615	615
Total	₩40,375	₩8,201	₩ (24,265)	₩14,794	₩ (4,775)	₩34,330
Other comprehensive income (loss) before tax:						
Net change in fair value	₩-	₩2,370	₩-	₩-	₩-	₩2,370

24. Contingent Liabilities and Commitments

(1) Litigation cases

As of September 30, 2020, the Group has 18 cases of pending litigations under progress where the Group is the defendant and the litigation value is ₩71,454 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of September 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 September 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 ¹⁾	KEB Hana Bank and five others	USD	374,700
Group loans	KEB Hana Bank	KRW	300,000
Consumer financing arrangement	KEB Hana Bank	KRW	7,000
Discount of notes	Korea Development Bank	KRW	8,000
Others	Korea Development Bank and five others	KRW	237,345
	KEB Hana Bank Bahrain branch	USD	6,600

¹⁾ Derivatives are composed of foreign exchange forward contracts and are held for trading as of September 30, 2020.

As of September 30, 2020, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: \$85,940 thousand) related to the overseas export of manufactured cigarettes etc.

(3) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Group as of September 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	1,414,321	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	3,480	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	19,635	Escrow deposit guarantee
Liberty Mutual and two others	USD	402	Payment guarantees on license bond
KEB Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves, etc.
GS E&C and two others	KRW	78,000	Establishment of a pledge right to stocks

As of September 30, 2020, the Group currently holds inventory from Alokozay International Limited worth ₩13,725 million as collateral in order to improve collection of receivables.

As of September 30, 2020, the Group is being provided with a payment guarantee from the Federal Insurance Company up to a limit of \$35,000 thousand in relation to import clearance for KT&G USA Corporation, and has a recourse responsibility for the amount of guarantee executed.

Payment guarantees provided by the Group for other parties as of September 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	₩39,975
	KEB Hana Bank	60,000	32,753
	Suhyup Bank	9,480	6,757
Payment guarantee for deductibles (Wansan branch and seven 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 September 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	₩23,603	3,395	₩3,395	Korea Technology Finance Corporation("KOTEC"), etc.	Establishment of leasehold rights for leasehold deposits
	102,221	3,488	4,186	Wonju City-Hall	Establishment of right to collateral security through a government grant
	57,991	10,501	52,000	KEB Hana Bank, etc.	Short-term, current portion of long-term borrowings and long-term borrowings
Property, plant and equipment Investment property	17,235	11,000	24,000	KEB Hana Bank	Short-term borrowings
	28,993 5,216	2,833	15,500	Korea Development Bank	Current portion of long-term borrowings
Investment property	484,538	22,687	24,992	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	₩728,934	₩54,501	₩133,210		

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

<i>In millions of Korean won</i>		September 30, 2020
	Establishment of a pledge to guarantee real estate development	₩8,540
	Establishment of a pledge for leasehold deposits	597
Other financial assets	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000
	Government subsidies	4
	Security deposits for checking accounts, etc.	1,762
Total		₩110,903

(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 ₩922,548 million as of September 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 ₩102,029 million as of September 30, 2020 (₩62,630 million as of December 31, 2019) and ₩32,406 million as of September 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 September 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 September 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(see Note 22 (6)).

As of September 30, 2020, there is a capital call agreement for overseas real estate funds invested by the Group. However, the Group expects 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 signed a stock transfer-acquisition contract and received a down payment to transfer its entire equity holdings to another company who is a shareholder of Yongin Jungsim during September 2020. The Group will transfer all the rights to its equity holdings in Yongin Jungsim to the other party in October 2020, once it receives the outstanding balance of the contract amount.

As of September 30, 2020, the Group is being provided with a commitment from Daewoo Engineering & Construction Co., Ltd. to complete the construction of public housing, efficiency apartments, and sales facilities in the Daeyupyeong District Unit Planning Zone located in 111, Jeongja-dong, Jangan-gu, Suwon-si. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee Cooperative in connection with the above mentioned construction.

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 and processing sales returns for the products with the Group. As of September 30, 2020, the Group has recognized, in relation to the above event, inventory valuation loss allowance of ₩392 million and refund liabilities of ₩2,195 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 4th tier cigarettes (cigarettes produced by small manufacturers) the Group has manufactured and exported to the United States. The products subject to the investigation are 4th 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 investigation of imports of 4th tier cigarettes from South Korea on July 15, 2020. The United States Department of Commerce preliminarily determined that the only known exporter from South Korea (the Parent company) has dumped 4th tier cigarettes in the United States at a margin of 5.48%. 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 September 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 September 30, 2027.

On July 15, 2020, the Securities & Futures Commission (“SFC”) 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 SFC in relation to the resolution on July 27, 2020, the Group has submitted a plan of action on August 25, 2020, and will make adjustments to the Group’s ledger and consolidated financial statements in accordance with the results of such measures.

As of September 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 nine months ended September 30, 2020 and 2019, are as follows:

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Profit for the period	₩865,412	₩920,373
Adjustments:		
Employee welfare	3,151	2,097
Retirement benefits	40,965	38,072
Loss on valuation or obsolescence of inventories	14,869	15,557
Depreciation	145,824	134,179
Amortization	8,364	3,083
Impairment loss(reversal of impairment loss) on trade and other receivables	(20,772)	3,844
Loss on foreign currency translation	74,072	4,187
Loss on valuation of derivatives	17,360	24,669
Loss on disposal of property, plant and equipment	3,096	878
Loss on impairment of property, plant and equipment	479	465
Loss on disposal of intangible assets	211	17
Loss on impairment of intangible assets	23	-
Loss on disposal of investment properties	493	-
Other expenses, etc.	11,606	10,849
Finance cost	12,883	13,954
Income tax expense	347,593	362,867
Gain on foreign currency translation	(8,588)	(91,519)
Gain on valuation of derivatives	(12,082)	(404)
Gain on disposal of property, plant and equipment	(730)	(2,177)
Gain on disposal of intangible assets	-	(3)
Gain on disposal of investment properties	(534)	-
Other income, etc.	(47,014)	(663)
Finance income	(102,604)	(75,777)
Share of gain of associates and joint ventures	(4,467)	(3,567)
Changes in working capital:		
Increase in trade and other receivables	(545,852)	(161,359)
Increase in derivatives	(8,366)	(17,541)
Decrease in inventories	126,829	223,811
Decrease(increase) in accrued tobacco excise and other taxes	34,473	(12,814)
Increase in advance payments	(125,071)	(98,166)
Increase in prepaid expenses	(11,995)	(4,462)
Increase in trade and other payables	79,256	69,169
Increase(decrease) in advance receipts	5,736	(75,007)
Increase(decrease) in tobacco excise and other taxes payable	639,133	(4,780)
Decrease in provision for site restoration	(4,837)	-
Decrease in net defined benefit liabilities	(3,784)	(3,536)
Cash generated from operations	₩1,535,132	₩1,276,296

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

<i>In millions of Korean won</i>	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Reclassification of property, plant and equipment to investment properties	₩5,470	₩145,540
Reclassification of investments in associates and joint ventures to fair value through other comprehensive income or loss	1,000	-
Reclassification of other payables related to the payment of tobacco excise payables by credit card	₩249,164	₩-

(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.