



# **KT&G Corporation**

Separate financial statements  
for each of the two years in the period ended December 31, 2023  
with the independent auditor's report

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

### The Shareholders and Board of Directors KT&G Corporation

#### Opinion

We have audited the separate financial statements of KT&G Corporation (the "Company"), which comprise the separate statements of financial position as of December 31, 2023 and 2022, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for each of the two years in the period ended December 31, 2023, and the notes to the separate financial statements, including material accounting policy information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2023 and 2022, and its separate financial performance and its separate cash flows for each of the two years in the period ended December 31, 2023 in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

We have also audited, the Company's internal control over financial reporting ("ICFR") as of December 31, 2023, based on the Conceptual Framework for Design and Operation of ICFR established by the Operating Committee of ICFR in Korea, in accordance with Korean Standards on Auditing ("KSA"), and our report dated March 4, 2024, expressed an unqualified opinion thereon.

#### Basis for opinion

We conducted our audit in accordance with KSA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the separate financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the separate financial statements of the current period. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### ***Recognition of revenues from pre-sale construction contracts***

As described in Note 2 to the separate financial statements, the Company sells residential and commercial properties under a long-term contract with customers, and recognizes revenues from pre-sale construction contracts over the period based on the cost-plus pricing method for the contracts with the following characteristics:

- i. the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- ii. the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

In addition, the Company determines that it holds the right to payment for performance completed to date only if it meets the following conditions as described in the 2017-I-KQA015 Question and Answer from the Korea Accounting Institute, and in assessing the existence and enforceability of a right to payment for performance completed to date, the Company shall consider the contractual terms as well as any legislation or legal precedent that could supplement or override those contractual terms:

- i. in circumstances where the customer has the contractual right to terminate within a specified period and the Company is entitled to receive penalties at least for the portion of performance completed by the Company; and
- ii. in circumstances when the customer acts to terminate the contract without having the right to terminate the contract at that time, the contract might entitle the Company to continue to transfer to the customer the goods or services as described in the contract and require the customer to pay the consideration promised in exchange for those goods or services.

As described in Note 25 to the separate financial statements, the Company recognizes revenue over the period based on the pre-sales rate and percentage-of-completion of six construction projects, including Suwon Hwaseo Prugio Brisciel as of December 31, 2023. The stage of completion of construction in progress can be determined in various ways, but the Company measured it by dividing the ratio of the accumulated contract cost by the total expected contract cost.

As described in Note 3 to the separate financial statements, the total contract revenue is affected by various uncertainties related the outcome of future events in the course of performing the contract, and the total contract cost is estimated based on future estimates such as material, labor and outsourcing costs, and the construction period, hence there is uncertainty that may change in the future. Therefore, we identified it as a significant risk due to the risk of misstatement of the real estate sales and their costs arising from uncertainties in the estimation of the total contract revenue and cost, and selected it as a key audit matter requiring the auditor's attention.

The main audit procedures we have performed for this key audit matter are as follows:

- We reviewed contracts for each construction project and accounting and auditing standards to ensure the appropriateness of revenue recognition accounting policies;
- We obtained an understanding of the internal controls related to real estate revenue recognition and tested the effectiveness of the design and operation of the controls;
- We corroborated the existence and occurrence of the contracts through examination of external evidences such as pre-sales contract letters;
- We inquired about fluctuations in the pre-sales rate and percentage-of-completion of a construction in progress by reporting periods;

- We examined documents to investigate significant fluctuations in the total estimated costs for construction projects by reporting periods, and the reasons behind such fluctuations;
- We compared the estimated total contract costs used in calculating the percentage-of-completion of a contract with the contractual amounts with contractor;
- We assessed the appropriateness of the estimated costs through comparison between the estimated total contract costs and actual total incurred costs;
- We performed on-site inspection for major construction projects to assess the existence and appropriateness of the percentage-of-completion;
- We examined documents to corroborate the occurrence and appropriateness of period attribution of costs for each construction project;
- We performed recalculation of the percentage-of-completion and revenues from pre-sale contracts accordingly for each construction project.

### **Responsibilities of management and those charged with governance for the separate financial statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with KIFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the separate financial statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with KSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jung-ik Park.



March 4, 2024

This report is effective as of March 4, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying separated financial statements and may result in modifications to this report.

# **KT&G Corporation**

Separate financial statements  
for each of the two years in the period ended December 31, 2023

“The accompanying separate financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.”

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

**KT&G Corporation**  
**Separate statements of financial position**  
**As of December 31, 2023 and 2022**



(in millions of Korean won)

	Notes		December 31, 2023		December 31, 2022
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5, 32, 33	₩	210,392	₩	939,550
Current other financial assets	5, 32, 33, 34		102,403		138,540
Current financial assets measured at fair value through profit or loss	6, 32, 33		342,933		393,106
Trade and other receivables	7, 25, 31, 32		1,433,909		1,299,941
Derivative assets	32, 34		7,751		23,069
Inventories	8		1,222,802		1,123,003
Refund assets and others	20		746		775
Accrued tobacco excise and other taxes			217,569		171,162
Advance payments			441		532
Prepaid expenses			15,326		6,784
<b>Total current assets</b>			<b>3,554,272</b>		<b>4,096,462</b>
<b>Non-current assets</b>					
Long-term other financial assets	5, 32, 34		84,040		42,410
Long-term deposits in MSA Escrow Fund	32, 34		1,479,737		1,437,130
Long-term financial assets measured at fair value through profit or loss	6, 32		337,216		313,603
Long-term trade and other receivables	7, 31, 32		254,744		136,916
Long-term financial assets measured at fair value through other comprehensive income or loss	9, 32		182,106		159,228
Investments in associates and joint ventures	10, 31, 34		457,341		265,895
Investments in subsidiaries	11, 31, 34		1,475,656		1,230,060
Property, plant and equipment	12, 31		1,282,113		1,177,839
Intangible assets	13		133,920		122,485
Investment properties	14, 34		992,523		1,029,217
Right-of-use assets	16		26,299		25,640
Long-term prepaid expenses			9,652		5,740
Deferred income tax assets	29		60,874		34,826
Net defined benefit assets	19		43,428		79,454
<b>Total non-current assets</b>			<b>6,819,649</b>		<b>6,060,443</b>
<b>Total assets</b>		₩	<b>10,373,921</b>	₩	<b>10,156,905</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term borrowings	17, 32, 33, 34, 35	₩	-	₩	113
Trade and other payables	18, 31, 32		1,416,275		1,225,737
Current lease liabilities	31, 32, 35		6,407		7,007
Advance receipts	25		8,646		13,191
Current refund liabilities and provisions	20, 34		7,154		9,647
Current income tax liabilities	29		164,435		189,921
Tobacco excise and other taxes payables			561,303		592,077
<b>Total current liabilities</b>			<b>2,164,220</b>		<b>2,037,693</b>
<b>Non-current liabilities</b>					
Bond	17, 32, 33, 35		299,165		-
Long-term trade and other payables	18, 19, 31, 32		51,938		45,486
Long-term lease liabilities	31, 32, 35		17,532		17,333
Long-term advance receipts	25		5,829		961
Long-term refund liabilities and provisions	20, 34		2,712		1,828
<b>Total non-current liabilities</b>			<b>377,176</b>		<b>65,608</b>
<b>Total liabilities</b>		₩	<b>2,541,396</b>	₩	<b>2,103,301</b>



**KT&G Corporation**  
**Separate statements of financial position, Continued**  
**As of December 31, 2023 and 2022**



*(in millions of Korean won)*

	<u>Notes</u>	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
<b>Equity</b>					
Share capital	21	₩	954,959	₩	954,959
Other capital surplus	21		4,030		3,582
Treasury shares	22		(1,236,933)		(1,236,933)
Gain on sale of treasury shares	22		528,894		528,894
Reserves	23		7,238,475		6,814,101
Retained earnings	24		343,100		989,001
<b>Total equity</b>		<u>₩</u>	<u>7,832,525</u>	<u>₩</u>	<u>8,053,604</u>
<b>Total liabilities and equity</b>		<u>₩</u>	<u>10,373,921</u>	<u>₩</u>	<u>10,156,905</u>

*“The accompanying notes are an integral part of the separate financial statements.”*

For each of the two years in the period ended December 31, 2023

<i>(in millions of Korean won)</i>	<u>Notes</u>	<u>2023</u>	<u>2022</u>
<b>Sales</b>	4, 25, 31	W 3,586,696	W 3,694,358
Manufacture of tobacco		3,045,911	3,088,094
Real estate		402,175	470,456
Exports of leaf tobacco and others		<u>138,610</u>	<u>135,808</u>
<b>Cost of sales</b>	26, 31	(1,881,464)	(1,776,312)
Manufacture of tobacco		(1,444,916)	(1,423,015)
Real estate		(322,476)	(244,690)
Exports of leaf tobacco and others		<u>(114,072)</u>	<u>(108,607)</u>
<b>Gross profit</b>		1,705,232	1,918,046
Selling, general and administrative expense	26, 31	<u>(773,489)</u>	<u>(797,752)</u>
<b>Operating profit</b>		931,743	1,120,294
Other income	27, 31	99,797	292,187
Other expense	27, 31	(91,042)	(193,400)
Finance income	28, 31, 32	167,932	151,615
Finance costs	28, 31, 32	<u>(31,341)</u>	<u>(54,734)</u>
<b>Profit before income tax</b>		1,077,089	1,315,962
Income tax expense	29	<u>(272,234)</u>	<u>(357,922)</u>
<b>Profit for the year</b>		<u>W 804,855</u>	<u>W 958,040</u>
<b>Other comprehensive income (loss) for the year after income tax</b>			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	19, 24	W (19,490)	W 39,406
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	9, 32	<u>16,772</u>	<u>(11,102)</u>
		<u>(2,718)</u>	<u>28,304</u>
<b>Total comprehensive income for the year</b>		<u>W 802,137</u>	<u>W 986,344</u>
<b>Earnings per share</b>			
Basic and diluted	30	W 6,993	W 8,007

*“The accompanying notes are an integral part of the separate financial statements.”*



	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserves	Retained earnings	Total equity
<i>(in millions of Korean won)</i>							
Balance as of January 1, 2022	954,959	3,582	(879,982)	528,894	6,515,545	877,117	8,000,115
Total comprehensive income (loss) for the period	-	-	-	-	-	958,040	958,040
Profit for the year	-	-	-	-	-	38,406	38,406
Other comprehensive income (loss) for the year:	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	(11,102)	-	(11,102)
Transfer from gain (loss) on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,445	(8,445)	-
<b>Subtotal other comprehensive income (loss) for the year</b>	-	-	-	-	-	-	-
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	(2,657)	30,961	28,304
Transactions with owners of the Company:	-	-	-	-	989,001	989,001	989,344
Dividends paid	-	-	-	-	-	(575,904)	(575,904)
Transfer to other reserve	-	-	-	-	301,213	(301,213)	-
Acquisition of treasury shares	-	-	(356,951)	-	-	-	(356,951)
<b>Total Transactions with owners of the Company</b>	-	-	(356,951)	-	-	(877,117)	(877,117)
Balance as of December 31, 2022	954,959	3,582	(1,236,933)	528,894	6,814,101	989,001	8,053,604
Balance as of January 1, 2023	954,959	3,582	(1,236,933)	528,894	6,814,101	989,001	8,053,604
Total comprehensive income (loss) for the year	-	-	-	-	-	804,855	804,855
Profit for the year	-	-	-	-	-	(19,490)	(19,490)
Other comprehensive income (loss) for the year:	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-
Profit on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	16,772	-	16,772
<b>Subtotal other comprehensive income (loss) for the year</b>	-	-	-	-	16,772	(19,490)	(2,718)
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	16,772	785,365	802,137
Transactions with owners of the Company:	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(720,936)	(720,936)
Transfer to other reserve	-	-	-	-	407,602	(407,602)	-
Acquisition of treasury shares	-	-	(302,728)	-	-	-	(302,728)
Retirement of treasury shares	-	-	302,728	-	-	(302,728)	-
Share options	-	448	-	-	-	-	448
<b>Total Transactions with owners of the Company</b>	-	448	-	-	407,602	(1,431,266)	(1,023,216)
Balance as of December 31, 2023	954,959	4,030	(1,236,933)	528,894	7,238,475	343,100	7,832,525

"The accompanying notes are an integral part of the separate financial statements."



<i>(in millions of Korean won)</i>	Notes	2023	2022	
<b>Net cash flows provided by operating activities</b>		₩ 969,780	₩ 822,520	
Cash generated from operations	35	1,292,662	1,197,748	
Income taxes paid		(322,882)	(375,228)	
<b>Net cash flows provided by (used in) investing activities</b>		(955,834)	470,357	
Interest received		34,253	19,563	
Dividends received		27,012	32,262	
Decrease in other financial assets		41,447	381,560	
Decrease in current financial assets measured at fair value through profit or loss		397,778	660,747	
Decrease in long-term financial assets measured at fair value through profit or loss		5,086	2,030	
Decrease in financial assets measured at fair value through other comprehensive income or loss		-	7,200	
Disposal of property, plant and equipment		4,227	3,785	
Disposal of intangible assets		1,034	300	
Disposal of investment properties		9,368	2,277	
Disposal of assets held for sale		372	62,696	
Disposal of investments in associates and joint ventures		41	42,882	
Collection of loans		17,105	16,637	
Collection of guarantee deposits		2,035	-	
Increase in other financial assets		(46,942)	(221,608)	
Increase in current financial assets measured at fair value through profit or loss		(295,076)	(19,039)	
Increase in long-term financial assets measured at fair value through profit or loss		(62,038)	(64,701)	
Increase in financial assets at fair value through other comprehensive income or loss		-	(3,000)	
Increase in long-term deposits in MSA Escrow Fund		(1,635)	(96,520)	
Acquisition of property, plant and equipment		(259,698)	(128,934)	
Acquisition of intangible assets		(36,309)	(36,826)	
Acquisition of investment properties		(16,551)	(19,958)	
Acquisition of investments in associates and joint ventures		(191,478)	(33,989)	
Acquisition of investments in subsidiaries		(245,596)	(49,457)	
Increase in loans		(337,391)	(86,199)	
Increase in guarantee deposits		(2,878)	(1,351)	
<b>Net cash flows used in financing activities</b>		(741,289)	(941,345)	
Dividends paid		(720,936)	(575,904)	
Interest paid		(8,506)	(460)	
Repayment of lease liabilities		(8,173)	(8,049)	
Acquisition of treasury shares		(302,728)	(356,951)	
Proceeds in short-term borrowings		1,650,000	90,019	
Repayment in short-term borrowings		(1,650,019)	(90,000)	
Proceeds from issuance of bond		299,073	-	
<b>Net increase (decrease) in cash and cash equivalents</b>		(727,343)	351,532	
<b>Cash and cash equivalents at the beginning of the year</b>		939,550	590,603	
Effect of exchange rate fluctuation on cash and cash equivalents		(1,815)	(2,585)	
<b>Cash and cash equivalents at the end of the year</b>	₩	210,392	₩	939,550

*"The accompanying notes are an integral part of the separate financial statements."*

## 1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2023, the Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of the monopoly business of red ginseng and tobacco, the Company was excluded from the application of the Framework Act on the Management of Government-Invested Institutions and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Improvement of Managerial Structure and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997.

The shareholders approved a plan to separate the Company into two companies by setting up a subsidiary for its red ginseng business segment effective from January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

On October 8, 1999, the Company sold 28,650,000 shares of government-owned interest to the public and listed its shares on Korea Exchange. The Company listed 35,816,658 and 45,400,000 shares of Global Depositary Receipts (“GDRs”) on Luxembourg Stock Exchange, on October 17, 2002 and October 31, 2001, respectively (each GDR represents the right to receive one-half ordinary share of the Company). Then on June 25, 2009, the Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

The Company’s major shareholders as of December 31, 2023, are as follows:

	<u>Shares held (number of shares)</u>	<u>Percentage of ownership (%)</u>
Industrial Bank of Korea	9,510,485	7.11
National Pension Service	8,883,001	6.64
Employee Share Ownership Association	4,899,892	3.66
Treasury shares	21,012,574	15.70
Others	89,516,545	66.89
Total	<u>133,822,497</u>	<u>100.00</u>

## 2. Material Accounting Policies

### 2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (KIFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The separate financial statements have been prepared based on historical cost except for the following:

- certain financial assets and financial liabilities (including derivatives);
- assets held for sale measured at fair value less cost to sell; and
- defined contribution plans and plan assets measured at fair value.

KIFRS allows the use of material accounting estimates in preparation of the separate financial statements and requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the separate financial statements are disclosed in Note 3.

### 2.2 Changes in Accounting Policies and Disclosures

#### (1) New and amended standards and interpretations

The Company does not have a history of early adoption of new accounting standards and interpretations that have been published but are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time in the 2023 reporting period. As of December 31, 2023, these amendments and interpretations do not have a material impact on the separate financial statements.

## 2.2 Changes in Accounting Policies and Disclosures (cont'd)

### *(a) KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to KIFRS 1001 define and require entities to disclose their material accounting policy information (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements).

### *(b) KIFRS 1001 Presentation of Financial Statements - Disclosure of financial liabilities with condition to adjust exercise price*

The amendments require disclosure of valuation gains or losses of the financial liabilities, if all or part of the financial instrument with exercise price that is adjusted depending on the issuer's share price change is classified as financial liability.

### *(c) KIFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates*

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies.

### *(d) KIFRS 1012 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction.

### *(e) New Standard: KIFRS 1117 Insurance Contract*

KIFRS 1117 *Insurance Contracts* replaces KIFRS 1104 *Insurance Contracts*. This standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses.

## 2.2 Changes in Accounting Policies and Disclosures (cont'd)

### *(f) KIFRS 1012 Income Taxes – International Tax Reform – Pillar Two Model Rules*

The amendments provide a temporary relief from the accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, which aim to reform international corporate taxation for multinational enterprises, and require disclosure of related current tax effects, etc. The Company applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes and the Pillar Two legislation is scheduled to be effective from January 1, 2024.

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

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2023 reporting period and have not been early adopted by the Company.

### *(a) Amendments to KIFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. In addition, covenants that an entity is required to comply with after the end of the reporting period would not affect classification of a liability as current or non-current at the reporting date. When an entity classifies a liability that is subject to the covenants which an entity is required to comply with within twelve months of the reporting date as non-current at the end of the reporting period, the entity shall disclose information in the notes to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted.

### *(b) Amendments to KIFRS 1007 Statement of Cash Flows, KIFRS 1107 Financial Instruments: Disclosures – Supplier finance arrangements*

When applying supplier finance arrangements, an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted.



## 2.2 Changes in Accounting Policies and Disclosures (cont'd)

### *(c) Amendments to KIFRS 1116 Leases – Lease Liability in a Sale and Leaseback*

When subsequently measuring lease liabilities arising from a sale and leaseback, a seller-lessee shall determine lease payments or revised lease payments in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

### **2.3 Material Accounting Policies**

Material accounting policies and method of computation used in the preparation of the separate financial statements are consistent with those of the separate financial statements for the year ended December 31, 2023, except for the changes due to the application of amendment and enactments of standards described in Note 2.2 and the ones described below.

#### **(1) Operating Segments**

Information on operating segments is disclosed based on the method of internal reporting to the chief operating decision maker (see Note 4). The chief operating decision maker is responsible for the allocation of resources to and evaluating the performance of the operating segments. The Company considers the board of directors, which performs strategic decision making, as its chief operating decision maker.

#### **(2) Investments in Subsidiaries, Associates and Joint Ventures**

The Company's financial statements are Separate financial statements pursuant to KIFRS 1027. The Company accounts for investments in subsidiaries, associates and joint ventures using the cost method. Dividends received from subsidiaries, associates and joint ventures are recognized through profit or loss when the right to receive dividends is established.

#### **(3) Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost, less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attributable to the acquisition of items.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the period incurred.

No depreciation is recognized for land and certain other tangible assets (such as trees and paintings, etc.) classified as property, plant and equipment. Property, plant and equipment, except for land and certain other tangible assets (such as trees and paintings etc.), are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which an asset's future economic benefits are expected to be consumed.



### 2.3 Material Accounting Policies (cont'd)

The estimated useful lives of the Company's assets are as follows:

Type	Estimated useful lives (years)
Land	Indefinite
Buildings	10 - 60
Structures	10 - 40
Machinery	10 - 12
Vehicles	4
Tools	4
Equipment	4
Others	1 - 5 or indefinite

The Company reviews the residual values and useful lives of assets at the end of each reporting period and adjusts them, if necessary. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gain or loss on disposal of assets are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

#### (4) Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on those borrowings during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.



### 2.3 Material Accounting Policies (cont'd)

#### (5) Government Subsidies

Government subsidies are only recognized when there is reasonable assurance that the Company will comply with the subsidies grant conditions and that the subsidies will be granted.

Asset related government subsidies are presented as deductions during the calculation of book value. Subsidies related to revenue are deferred and are presented as deductions from expenses related to the purpose of the government subsidies being granted.

#### (6) Intangible Assets

Intangible assets are measured initially at cost and subsequently are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of intangible assets from the date when they are available for use. The residual value of intangible assets is assumed to be zero.

However, as there are no foreseeable limits to the periods over which some industrial property rights, facility usage rights and intangible assets under development are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

Type	Estimated useful lives (years)
Industrial property rights	10 - 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Others	4

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. Intangible assets with indefinite lives are reviewed at the end of each reporting period to determine whether assessment of their useful lives as indefinite are still valid, and adjusted if appropriate. Such changes are accounted for as changes in accounting estimates.

### 2.3 Material Accounting Policies (cont'd)

Development costs recognized as intangible assets mainly consist of costs associated with developing information management system. Development costs are recognized as intangible assets when the following criteria are met. Other expenditures attributable to system repair and maintenance are recognized as expense as incurred.

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use to sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

#### (7) Investment Property

Property held for earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with an item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Routine repair and maintenance costs are recognized in profit or loss as incurred.

No depreciation is recognized for land which is classified as investment property. Investment property, except for land, is depreciated on a straight-line basis over 10-60 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. Such changes are accounted for as changes in accounting estimates.

### 2.3 Material Accounting Policies (cont'd)

#### (8) Assets Held-for-Sale

Non-current assets, or disposal groups held for sale that are expected to be recovered primarily through sale, rather than through continuous use, are classified as assets held-for-sale. In order to be classified as assets held-for-sale, an asset (or a disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. For the asset that had been impaired on the initial reclassification, the impairment loss is recognized immediately in profit or loss if the fair value of the asset decreases, when the fair value increases the impairment loss will be reversed into profit or loss with the limit of accumulated impairment loss recognized so far. However, deferred tax assets, assets generated from employee benefits, and financial instruments which are subject to KIFRS 1109 *Financial Instruments* are measured in accordance with the relevant standards.

If the non-current asset is classified as held-for-sale or is part of a disposal group classified as held-for-sale, the asset is not amortized.

#### (9) Inventories

Inventories are measured at the lower of acquisition cost or net realizable value. The acquisition cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The Company applies the following determination method to unit cost price by types of inventories.

<u>Type</u>	<u>Determination method of unit cost price</u>
Merchandise, finished goods, half-finished goods, work in progress, raw materials, supplies and by-products	Weighted-average method or moving-average method
Buildings under construction, completed buildings, sites for construction of real estate and goods in transit	Specific identification method

When inventories are sold, the carrying amount of those inventories are recognized as cost of goods sold in the period in which the related revenue is recognized. Any loss on valuation or loss from inventory shrinkage that reduces the value of inventories to net realizable value are recognized as an expense during the period in which the write-down or shrinkage occurs. Any reversal of inventory valuation losses due to increases in the net realizable value of inventories are deducted from expenses already recognized as cost of goods sold during the period in which the reversal occurs.

### 2.3 Material Accounting Policies (cont'd)

#### (10) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there are any indication of impairment. If any indication of impairment exist, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use are tested for impairment annually by comparing their recoverable amount to their carrying amount, regardless of whether there are any indication of impairment.

If it is impossible to measure the recoverable amounts of individual assets, the recoverable amount of an asset is determined as the higher value between the value-in-use or the fair value less costs to sell for each cash-generating unit ("CGU") that the asset belongs to. If the carrying amount of an asset or a CGU exceeds its recoverable amount, the book value of the asset is reduced and impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the Company tests for signs which show that any impairment loss recognized in the past either no longer exists or there has been a reduction in the amount. Impairment losses are only reversed if changes occur to the estimates used to determine the recoverable amount since the period in which an impairment loss was last recognized.

#### (11) Financial Assets (Other than Derivative Instruments)

##### *(a) Classification*

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss;
- those to be measured at fair value through other comprehensive income; and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, classification will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value through other comprehensive income at the time of initial recognition. For equity instruments not held for trading where the Company has not made such an election, subsequent changes in the investment's fair value are recognized through profit or loss.

### 2.3 Material Accounting Policies (cont'd)

#### *(b) Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognized as an expense through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### - Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

##### A. Financial assets measured at amortized cost

Financial assets are measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

##### B. Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Valuation gains or losses for financial assets measured at fair value are recognized through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized through profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.



### 2.3 Material Accounting Policies (cont'd)

#### C. Financial assets measured at fair value through profit or loss

Debt instruments shall be measured at fair value through profit or loss unless they are financial assets measured at amortized cost or at fair value through other comprehensive income. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not subject to a risk hedging relationship is recognized in profit or loss. It is presented in the separate statements of comprehensive income as 'finance income' or 'finance cost' in the period incurred.

#### - Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments (held for long-term investment or strategic purposes), in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following de-recognition of the investment. Gains and losses related to the disposal of such investments are recognized in retained earnings. Dividend income from such investments continue to be recognized in the separate statements of comprehensive income as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are presented as 'finance income' or 'finance cost' in the separate statements of comprehensive income. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income is not reported separately from other changes in fair value.

#### *(c) Impairment*

The Company assesses the expected credit losses associated with its debt instruments measured at amortized cost or measured at fair value through other comprehensive income based on information that projects the future. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and other receivables, the Company applies the simplified approach, which recognizes lifetime expected credit losses from initial recognition of the receivables.

### 2.3 Material Accounting Policies (cont'd)

#### *(d) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classifies the financial liability as 'borrowings and bonds' in the separate statements of financial position.

#### *(e) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the separate statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### (12) Financial Liabilities

#### *(a) Classification and measurement*

Financial liabilities of the Company measured at fair value through profit or loss are financial instruments held for trading. Financial liabilities assumed usually for repurchase in the short term are classified as financial liabilities held for trading. Derivative instruments which are not designated as a means of hedge accounting as well as embedded derivative instruments which are separate from financial instruments are also classified as financial instruments held for trading.

All non-derivative financial liabilities are classified as financial liabilities measured at amortized cost and are presented as 'trade and other payables', 'borrowings and bonds' or 'lease liabilities' in the separate statements of financial position. Exceptions to this are financial liabilities measured at fair value through profit or loss, financial guarantee contracts and cases where the transfer of financial assets do not satisfy conditions for derecognition.

## 2.3 Material Accounting Policies (cont'd)

### *(b) Derecognition*

Financial liabilities are derecognized from the separate statements of financial position when either: the contractual obligations have been satisfied, cancelled or expired; or there has been a substantial change to the conditions of the existing financial liabilities. The difference between financial liabilities that have been expired or transferred to a third party, and the consideration paid (including non-cash assets transferred or liabilities assumed) are recognized through profit or loss.

### (13) Derivative Instruments

At initial recognition, derivative instruments are measured at their fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting valuation gains or losses arising from changes in fair value of derivative instruments are recognized through profit or loss.

### (14) Cash and Cash Equivalents

The Company classifies investment assets with maturities of three months or less from the acquisition date as cash and cash equivalents. Equity investments are excluded from cash equivalents, unless they are, in substance, cash equivalents, for example, in the case of preferred shares when they have a short maturity with a specified redemption date.

### (15) Employee Benefits

#### *(a) Short-term employee benefits*

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

#### *(b) Other long-term employee benefits*

As for other long-term employee benefits that are not due to be settled within 12 months after the end of the period in which the employees rendered the related service, the future benefits acquired in return for the services provided in the current term and the past period are discounted as current value. Changes following remeasurements are recognized as current term's profit or loss that have incurred in the period.

### 2.3 Material Accounting Policies (cont'd)

#### *(c) Retirement benefits: Defined contribution plans*

The contribution payable to a defined contribution plan in exchange for services rendered by an employee to the Company during a period is recognized through profit or loss, except for cases where the contribution payable is included in the asset's cost. The contribution payable is recognized as a liability (accrued expense) after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

#### *(d) Retirement benefits: Defined benefit plans*

Defined benefit pension plans are all pension plans excluding defined contribution pension plans. Generally, the amount of retirement pension payable to employees at retirement are confirmed through factors such as age, number of years worked or salary level, etc.

The net defined liability (asset) recognized on the separate financial statement of financial position in relation to defined benefit plans is the amount of deficit (or amount of surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling) as determined by deducting the present value of the defined benefit obligations from the fair value of plan assets as of the end of the reporting period. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is presented in the currency that the salary will be paid and is calculated by discounting the expected future cash outflow by the interest rate of a corporate bond with a good credit rating with a maturity similar to the period when payment of the defined benefit obligation is due.

Changes in actuarial assumptions and actuarial gains or losses that arise from the difference between the actuarial assumptions and the actual results are recognized through other comprehensive income in the period incurred. Past service cost is recognized at the earlier of the following dates: when the plan amendment or curtailment occurs; and when the Company recognizes related restructuring costs or terminations benefits.

#### *(e) Termination benefits*

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring.

### **2.3 Material Accounting Policies (cont'd)**

#### **(16) Refund Liabilities and Provisions**

Refund liabilities and provisions are present obligations (legal obligation or constructive obligation) that exist as a result of past events. The Company recognizes refund liabilities and provisions when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount of refund liabilities and provisions recognized are the best estimates of the necessary expenditure required to fulfill the present obligations at the end of the reporting period, taking into account the unavoidable risks and uncertainties involved. Where the effect of the time value of money is material, refund liabilities and provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle refund liabilities or provisions are expected to be reimbursed by another party, the reimbursement shall be recognized only when it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Refund liabilities and provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the related refund liabilities and provisions are reversed.

#### **(17) Paid-in Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to equity transactions are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its own equity instruments, the amount of the consideration paid is recognized as a contra-equity account and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profits or losses.

### 2.3 Material Accounting Policies (cont'd)

#### (18) Revenue Recognition

The Company's revenue categories consist of revenue from goods sold, services and other income.

##### *(a) Sales of goods*

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company and the costs incurred or to be incurred with respect to the transaction can be measured reliably.

Since the Company's contract with customers to supply goods allows customers a right of return, the amount of consideration that the Company receives can be variable. Variable consideration is estimated by using the expected value method, which the Company expects to better predict the amount of consideration to which it is entitled. The Company recognizes revenue by including in the transaction price variable consideration only up to the amount where it is highly probable that a significant portion of the accumulated revenue already recognized will not be reversed.

Refund liabilities are recognized at the amount of consideration received (or receivable) for which the Company does not expect to be entitled. When customers exercise their right of return, the Company has a right to recover its products from customers. The Company recognizes this right as a refund asset and makes a corresponding adjustment to the cost of sales. The Company's right to recover its products are measured by deducting the cost of retrieving the goods from customers from the previous book value of the product.

##### *(b) Rendering of services*

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

### 2.3 Material Accounting Policies (cont'd)

#### *(c) Sale of real estate*

The Company sells residential real estate according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Company has the right to claim for enforceable payment with regard to work performed up to that point.

Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management has deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with KIFRS 1115.

For housing contracts meeting the conditions as described in Korea Accounting Institute's Question and Answer of 2017-I-KQA015, the revenue from the pre-sale of real estate is recognized using the percentage-of-completion method, and the accounting is effective only within the context of KIFRS.

The Company pays sales commission in relation to the sales contract of residential real estate. When the Company estimates that such incremental cost would be recovered, the incremental cost is capitalized and amortized over the period in which the residential real estate is transferred to the customer.

On the other hand, sales revenue is recognized for sales contracts, such as shopping center, that do not meet the requirements for payment claims during the contract period, when the construction is completed and control of the goods is transferred to the customer.

#### *(d) Lease of real estate*

The profit from lease of investment property and others is recognized on a straight-line basis over the period of lease.

#### (19) Finance Income and Finance Cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method. Dividend income is recognized through profit or loss on the date the Company's right to receive the dividend as a shareholder is established. Finance cost includes interest expense on borrowings and lease liabilities, amortization on trade and other payables etc. Interest expense, as it accrues, is recognized through profit or loss using the effective interest method.

### **2.3 Material Accounting Policies (cont'd)**

#### **(20) Income Tax Expense**

Income tax expense consists of current tax and deferred tax. Income tax is usually recognized through profit or loss. Exceptions are income tax related to items which are recognized directly in other comprehensive income or in equity. In such cases, income tax is also recognized directly in other comprehensive income or in equity.

Income tax expense is measured based on tax laws that have either been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, the Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset if and only if the Company has a legally enforceable right to set off current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority which intends to settle income taxes on a net basis.



### **2.3 Material Accounting Policies (cont'd)**

#### **(21) Functional and Presentation Currency**

The Company's separate financial statements are prepared in Korean won, the currency of the main economic environment in which the Company operates (the "functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the separate statements of comprehensive income within 'other income' or 'other expenses'.

Foreign exchange gains or losses arising from non-monetary financial assets and liabilities are considered a part of changes in fair value through profit or loss. Therefore, foreign exchange gains or losses arising from equity instruments measured at fair value through profit or loss are recognized through profit or loss. Foreign exchange gains or losses arising from equity instruments measured at fair value through other comprehensive income are recognized through other comprehensive income.

#### **(22) Earnings per Share**

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

### **2.3 Material Accounting Policies (cont'd)**

#### **(23) Lease**

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expenses over the lease term on the same basis as lease income. The respective leased assets are included in the separate statement of financial position based on their nature.

The Company leases various offices, accommodation for employees and vehicles etc. The terms of lease are negotiated individually and include various contractual conditions. There are no restrictions from lease contracts other than that the leased assets cannot be used as collateral for borrowings.

The Company determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Company applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company (the lessee) under residual value guarantees;
- the exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

### **2.3 Material Accounting Policies (cont'd)**

For variable lease payment terms that are linked to indexes or rates, the Company is exposed to the potential future risks of the variable lease payments not included in the lease liabilities whilst the indexes or rates are still valid. In such cases, the Company re-evaluates the lease liabilities whilst the changes in lease payments (due to indexes or rates) are still valid and make adjustments to the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- estimated restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis through profit or loss.

#### **(24) Emission Rights**

Pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission that became effective in 2015, the Company has an emission liability, which is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gases. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation can be reliably estimated.

### **2.3 Material Accounting Policies (cont'd)**

#### **(25) Share-based Payments**

CEO of the Company receive remuneration in the form of share-based payments, whereby CEO render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the “vesting period”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

#### **(26) Going Concern**

At the time of approving the financial statements, management has reasonable expectations that the Company has sufficient resources to continue as a going concern for the foreseeable future. Therefore, management has prepared the financial statements under the assumption that the Company will continue as a going concern.

#### **(27) Approval of Financial Statements**

The separate financial statements of the Company have been approved by the Board of Directors on February 28, 2024, and may be modified and approved at the Annual General Meeting of Shareholders.

### **3. Material Accounting Estimates and Assumptions**

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

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information on significant judgement and assumptions of certain items are included in the relevant notes.

### 3. Material Accounting Estimates and Assumptions (cont'd)

#### (1) Impairment of investments in subsidiaries

The Company determines whether to recognize an impairment loss on investments in subsidiaries in accordance with KIFRS 1036 *Impairment of Assets*.

When there is an indication of impairment of assets, the Company performs an impairment assessment by comparing the carrying amount of investments in subsidiaries with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is determined based on the estimation of the value in use or fair value less costs to sell (see Note 11).

#### (2) Total construction revenue and total construction cost

##### (a) *Uncertainty of total contract revenue estimates*

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Company includes it in contract revenue (see Note 25).

##### (b) *Estimated total construction cost*

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period, etc. (see Note 25).

#### (3) Climate-related risks

The Company considers climate-related risks in its estimates and assumptions. This assessment includes a wide range of possible on the Company due to both physical and transition risks. Even though the Company believes that its business model and products will still be viable after the transition to a low-carbon economy, climate-related risks increase the uncertainty of estimates and assumptions underpinning several items in the financial statements. Even though climate-related risks might not currently have a material impact on measurement, the Company is closely monitoring relevant changes and developments, such as new climate-related legislation. The items and considerations that are most directly affected by climate-related risks are as follows:

##### (a) *Useful lives of property, plant and equipment*

When reviewing the residual value and expected useful life of an asset, the Company considers climate-related risks, including climate-related legislation and regulations that may restrict the use of asset or require significant capital expenditures.

### 3. Material Accounting Estimates and Assumptions (cont'd)

*(b) Impairment of non-financial assets*

The value-in-use may be impacted in several different ways by transition risks in particular, such as climate-related legislation and regulations and changes in demand for the Company's products.

*(c) Fair value measurements*

For investment properties and revalued office properties, the Company considers the impact of physical risk and transition risk, as well as whether investors will reflect these risks into the valuation.

*(d) Decommissioning liability*

The impact of climate-related legislation and regulations is considered in estimating the timing and future costs of decommissioning one of the Company's manufacturing facilities.

*(e) Emission rights*

The Company receives free emission rights on an annual basis and, in return, it is required to remit rights equal to its actual emissions. The Company has adopted the net liability approach to the emission rights granted.

### 4. Operating Segment

The Company obtains revenue by transferring goods and services over 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 KIFRS 1108.

*(in millions of Korean won)*

			<u>2023</u>	<u>2022</u>
Revenue recognized at a point in time:				
Sales of tobacco/merchandise and service revenue and others	Korea	Wholesale and retail	₩ 2,192,181	₩ 2,121,702
	Korea	Direct sales	5,070	3,469
	Export	Wholesale and retail	848,660	962,923
Sales of semifinished tobacco products/raw materials and others	Korea	Direct sales	30,085	407
	Export	Direct sales	108,525	135,401
Sales and rental of real estate	Korea	Sales	70,360	4,208
Subtotal			<u>3,254,881</u>	<u>3,228,110</u>
Revenue recognized over time:				
Sales and rental of real estate	Korea	Sales	246,893	382,342
	Korea	Rental	84,922	83,906
Subtotal			<u>331,815</u>	<u>466,248</u>
Total			<u>₩ 3,586,696</u>	<u>₩ 3,694,358</u>

## 5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>		<u>2022</u>	
Cash on hand	₩	3	₩	4
Demand deposits		210,389		281,640
Money Market Trust		-		337,906
Other cash and cash equivalents		-		320,000
Total	₩	<u>210,392</u>	₩	<u>939,550</u>

(b) Details of other financial assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>				<u>2022</u>			
	<u>Current</u>		<u>Non-current</u>		<u>Current</u>		<u>Non-current</u>	
Time deposits	₩	102,403	₩	4,033	₩	138,540	₩	2,403
Company stock		-		80,007		-		40,007
Total	₩	<u>102,403</u>	₩	<u>84,040</u>	₩	<u>138,540</u>	₩	<u>42,410</u>

## 6. Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>				<u>2022</u>			
	<u>Current</u>		<u>Non-current</u>		<u>Current</u>		<u>Non-current</u>	
Money Market Trust	₩	-	₩	4,380	₩	349,984	₩	5,600
MMF		295,258		-		-		-
Beneficiary certificate		47,675		332,836		43,122		308,003
Total	₩	<u>342,933</u>	₩	<u>337,216</u>	₩	<u>393,106</u>	₩	<u>313,603</u>

## 7. Trade and Other Receivables

(a) Details of trade and other receivables as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 988,516	₩ 62,818	₩ 1,065,807	₩ 36,529
Loans	315,083	139,676	78,465	50,512
Other receivables	82,403	8,778	120,629	10,197
Guarantee deposits	37,955	37,977	23,290	37,806
Accrued income	9,952	5,495	11,750	1,872
Total	₩ 1,433,909	₩ 254,744	₩ 1,299,941	₩ 136,916

(b) Details of allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,483,123	₩ 392,891	₩ 1,378,601	₩ 261,723
Allowances:				
Trade receivables	(49,113)	(96,203)	(70,546)	(87,988)
Other receivables	(101)	(41,944)	(8,114)	(36,819)
Total allowances	(49,214)	(138,147)	(78,660)	(124,807)
Net trade and other receivables	₩ 1,433,909	₩ 254,744	₩ 1,299,941	₩ 136,916

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Beginning balance	₩ 203,467	₩ 211,516
Impairment loss (reversal of impairment loss)	(16,103)	(8,049)
Write off, etc.	(3)	-
Ending balance	₩ 187,361	₩ 203,467

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 separate statements of comprehensive income.



## 8. Inventories

(a) Details of inventories as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 19,213	₩ (1,597)	₩ 17,616	₩ 24,145	₩ (1,825)	₩ 22,320
Finished goods	120,841	(13,157)	107,684	132,967	(10,264)	122,703
Half-finished goods	43,706	(980)	42,726	40,790	(988)	39,802
Work in progress	2,668	-	2,668	5,400	-	5,400
Raw materials	692,687	(233)	692,454	666,967	(268)	666,699
Materials	43,540	(2,999)	40,541	40,094	(6,302)	33,792
Supplies	57,419	-	57,419	49,188	-	49,188
By-products	7,577	-	7,577	5,140	-	5,140
Buildings under construction	19,965	-	19,965	61,597	-	61,597
Completed buildings	105,631	-	105,631	1,490	-	1,490
Sites for construction of real estate	41,741	-	41,741	62,906	-	62,906
Goods in transit	86,780	-	86,780	52,093	(127)	51,966
Total	₩ 1,241,768	₩ (18,966)	₩ 1,222,802	₩ 1,142,777	₩ (19,774)	₩ 1,123,003

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Cost of sales:		
Reversal of loss on valuation of inventories	₩ (808)	₩ (2,233)
Loss on obsolescence of inventories	6,549	5,553
Other expenses:		
Loss on obsolescence of inventories	260	-
Total	₩ 6,001	₩ 3,320

## 9. Financial Assets measured at Fair Value through Other Comprehensive Income or Loss

(a) Details of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Listed:		
Oscotech Inc.	₩ 12,170	₩ 9,134
Shinhan Financial Group Co., Ltd.	160,936	141,094
Subtotal	<u>173,106</u>	<u>150,228</u>
Unlisted	9,000	9,000
Total	<u>₩ 182,106</u>	<u>₩ 159,228</u>

When assessing the fair value of financial assets measured at fair value through other comprehensive income or loss, the Company used market prices traded in the active trading market for listed equity instruments and measured unlisted equity instruments using the discounted cash flow model, etc.

At the disposal of the above equity instruments, the related accumulated other comprehensive income or loss is reclassified to retained earnings and is not reclassified to profit or loss.

(b) Changes in financial assets measured at fair value through other comprehensive income or loss for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Beginning balance	₩ 159,228	₩ 203,172
Acquisition	-	3,000
Changes in fair value	22,878	(14,444)
Disposal and reclassification	-	(32,500)
Ending balance	<u>₩ 182,106</u>	<u>₩ 159,228</u>

## 10. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	2023		2022	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associate	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	Manufacturing medical supplies	12.53	₩ 1,830	12.53	₩ 1,830
	KORAMCO Banpo PFV Co., Ltd. <sup>1,2</sup>	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT <sup>3</sup>	Korea	Real estate investment, development and rental business	26.47	39,568	26.47	39,568
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Cheongna Medipolis PFV Co., Ltd. <sup>4</sup>	Korea	Real estate development and sales	51.01	101,000	56.74	17,022
	INNODIS Co., Ltd. <sup>1</sup>	Korea	Game, advertizing agency	19.64	55	19.64	55
	SJ BIO MED Co., Ltd. <sup>1,5</sup>	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	21.92	-	22.73	-
	Mirae Asset KT&G Investment Fund I	Korea	Healthcare, ESG, New growth industry	45.00	9,000	45.00	4,500
	KB KT&G New Growth Fund 1 <sup>6</sup>	Korea	Healthcare, New growth industry	66.67	3,000	-	-
	Joint venture	KORAMCO Europe Private REIT 3-2 Fund <sup>7</sup>	Germany	Renting of real estate	51.35	18,468	51.35
Starfield Suwon Inc.		Korea	Real estate development and rental business	50.00	244,500	50.00	144,500
Total					₩ 457,341		₩ 265,895

<sup>1</sup>The Company has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the invested company with its right to participate in the invested company's Board of Directors meetings in accordance with the agreement with shareholders.

<sup>2</sup>As of December 31, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan (see Note 34 (c)).

<sup>3</sup>The Company has reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2022.

## **10. Investments in Associates and Joint Ventures (cont'd)**

<sup>4</sup>The Company has classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>5</sup>As of December 31, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>6</sup>Although the ownership exceeds 50%, the Company has classified the ownership as investment in associates as the Company does not have control over related activities and has significant influence through participating on investment decision-making authority.

<sup>7</sup>The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

The Company has acquired additional equity securities of Mirae Asset KT&G Investment Fund I, an associate, (45 shares for ₩ 4,500 million) during the year ended December 31, 2023 (2022: 45 shares for ₩ 4,500 million).

During the year ended December 31, 2023, the Company additionally acquired 16,795,600 preferred shares (₩ 83,978 million) of Cheongna Medipolis PFV Co.,Ltd., an associate, through the issuance of new stocks.

During the year ended December 31, 2023, the Company additionally acquired 2,000,000 shares (₩ 100,000 million) of Starfield Suwon Inc., a joint venture, through the issuance of new stocks.

During the year ended December 31, 2023, the Company newly invested ₩ 3,000 million to KB KT&G New Growth Fund 1, an associate.

During the year ended December 31, 2022, the Company additionally acquired 138,706 shares (₩ 29,489 million) of KOCREF 41 REIT through the issuance of new stocks and reclassified its interest in the entity as investment in associates. The Company also disposed 99,000 preferred shares of the same entity (₩ 7,920 million) and recognized ₩ 4,359 million of gain from disposal of investment in associates.

During the year ended December 31, 2023, the Company partially disposed of KORAMCO Europe Private REIT 3-2 Fund, an associate, and recognized gain on disposal of investment in associates of ₩ 9 million.

During the year ended December 31, 2022, the Company disposed of Kiwoom Milestone Private REIT No.16, an associate, and recognized gain of ₩ 15,603 million from disposal of investment in associates.

## 11. Investments in Subsidiaries

(a) Details of investments in subsidiaries as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Name of entity	Location	Principal operation	2023		2022	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industry Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	117,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	Manufacturing and selling tobaccos	99.99	57,039	99.99	31,415
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	-	100.00	-
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	Holding Company	100.00	163,104	100.00	163,104
PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	Manufacturing and selling tobacco	6.56	1,162	-	-
PT KT&G Indonesia <sup>2</sup>	Indonesia	Selling tobaccos	-	-	99.99	1,162
SangSang Stay Inc.	Korea	Hotel	100.00	32,068	100.00	2,068
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon SangSang PFV. Inc.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	100.00	8,081
Mastern No. 144 PFV Co.,Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
KT&G Global Kazakhstan LLP	Kazakhstan	Selling tobaccos	100.00	18,510	-	-
KT&G Kazakhstan LLP	Kazakhstan	Manufacturing and selling tobacco	100.00	35,910	-	-
DNC Deogeun Co., Ltd. <sup>3</sup>	Korea	Real estate development and sales business	38.25	35,552	-	-
Edn the pine central Seocho Co., Ltd.	Korea	Real estate development and sales business	78.65	35,000	-	-
Total				₩ 1,475,656		₩ 1,230,060

<sup>1</sup>The percentage of ownership is including 6,978,948 convertible preferred stocks (₩ 25,291 million) of Renzoluc Pte., Ltd.

<sup>2</sup>PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged with PT KT&G Indonesia, the subsidiary of the Company, during the year ended December 31, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makmur in exchange for 104,986 (99.99%) shares of PT KT&G Indonesia. The consolidated percentage of ownership of PT Trisakti Purwosari Makmur is 99.99%, including shares held by Renzoluc Pte., Ltd., the subsidiary of the Company, as of December 31, 2023.

<sup>3</sup>The Company has acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries. As the Company holds substantial decision-making right over related activities that has significant impact on the profit or loss of DNC Deogeun Co., Ltd. through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

## 11. Investments in Subsidiaries (cont'd)

The Company has acquired 75,344,496 shares (₩ 25,624 million) (2022: 131,020,854 shares, ₩ 49,457 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., during the year ended December 31, 2023, through issuance of new stocks.

The Company has acquired 6,000,000 shares (₩ 30,000 million) of SangSang Stay Inc. and 1,408,940 shares (₩ 65,000 million) of Tae-A Industrial Co., Ltd. during the year ended December 31, 2023, through issuance of new stocks.

The Company newly established KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the year ended December 31, 2023, through capital investment of ₩ 18,510 million and ₩ 16,188 million, respectively.

The Company invested additional ₩ 19,722 million in KT&G Kazakhstan LLP during the year ended December 31, 2023.

The Company has acquired 3,825 preferred stocks with voting rights (₩ 35,552 million) of DNC Deogeun Co., Ltd., and 7,000,000 preferred stocks with voting rights (₩ 35,000 million) of Edn the pine central Seocho Co., Ltd. during the year ended December 31, 2023, through equity purchase.

### (b) Impairment

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

The Company has recognized impairment losses for its investment in subsidiaries where indications of impairment have been identified since the book value of net assets of the subsidiaries were lower than the book value of the investments in subsidiaries, due to the continuous accumulation of operating losses, etc. Details of such impairment losses recognized for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Name of entity	2023	2022	Method for evaluating recoverable amount
SangSang Stay Inc.	₩ -	₩ 2,751	Fair value less costs to sell
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	-	18,042	Fair value less costs to sell
Total	₩ -	₩ 20,793	

## 11. Investments in Subsidiaries (cont'd)

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

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

During the year ended December 31, 2023 in relation to investments in subsidiaries which belong to the CGUs of the Indonesian tobacco business, the recoverable amount was measured as value in use. Future cash flows to measure value in use were estimated for the next five years based on the Company's past operating performance and future business plans, and subsequent cash flows were estimated by applying a 1% permanent growth rate.

The key assumptions applied in measuring value in use are as follows:

(in percent)

Type <sup>1</sup>	2023
Sales growth rate	12.44
Gross margin (% of revenue)	37.03
Operating income rate	8.87

<sup>1</sup>Annual average rate over the five-year forecast period.

The discount rate used for measuring in use value-in-use calculation is the weighted average cost of capital adjusted to reflect the risks specific to the asset. Details of the discount rates used for value-in-use calculation for the year ended December 31, 2023, are as follows:

(in percent)

Name of entity	2023
Renzoluc Pte., Ltd.	
PT Trisakti Purwosari Makmur	11.70

## 11. Investments in Subsidiaries (cont'd)

The assumptions that are most sensitive to the value in use of Indonesian tobacco business cash-generating units are the discount rate and permanent growth rate, and the effects of changes in the assumptions are as follows:

As a result of the sensitivity analysis, the Company's management determined that the risk of recognizing an impairment loss is not high.

(in millions of Korean won)

	2023			
	Increase by 1%p		Decrease by 1%p	
Discount rate				
Effect on value in use	₩	(74,750)	₩	91,903
Impairment loss recognized		(32,027)		-
Permanent growth rate				
Effect on value in use		72,045		(59,730)
Impairment loss recognized		-		(17,007)

## 12. Property, Plant and Equipment

(a) Details of the carrying amounts of property, plant and equipment as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 346,043	₩ -	₩ 346,043	₩ 358,000	₩ -	₩ 358,000
Buildings	666,773	(392,970)	273,803	659,042	(387,802)	271,240
Structures	39,478	(27,720)	11,758	35,441	(27,268)	8,173
Machinery	1,349,707	(940,922)	408,785	1,279,246	(915,057)	364,189
Vehicles	1,413	(1,033)	380	1,340	(1,210)	130
Tools	54,273	(37,221)	17,052	46,022	(32,881)	13,141
Equipment	93,237	(70,912)	22,325	111,070	(84,683)	26,387
Others	4,736	(350)	4,386	4,709	(350)	4,359
Construction in progress	197,581	-	197,581	132,220	-	132,220
Total	₩ 2,753,241	₩ (1,471,128)	₩ 1,282,113	₩ 2,627,090	₩ (1,449,251)	₩ 1,177,839



## 12. Property, Plant and Equipment (cont'd)

(b) Changes in property, plant and equipment for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023													
	Beginning balance		Acquisition <sup>1</sup>		Disposal		Depreciation		Impairment		Reclassification, etc. <sup>2</sup>		Ending balance	
Land	W	358,000	W	-	W	-	W	-	W	-	W	(11,957)	W	346,043
Buildings		271,240		21,950		(190)		(17,366)		(10)		(1,821)		273,803
Structures		8,173		5,493		(147)		(1,445)		-		(316)		11,758
Machinery		364,189		63,345		(2,033)		(62,320)		(7,033)		52,637		408,785
Vehicles		130		363		-		(113)		-		-		380
Tools		13,141		8,246		-		(5,879)		(6)		1,550		17,052
Equipment		26,387		10,203		(36)		(14,458)		-		229		22,325
Others		4,359		27		-		-		-		-		4,386
Construction in progress		132,220		125,168		-		-		(92)		(59,715)		197,581
Total	W	1,177,839	W	234,795	W	(2,406)	W	(101,581)	W	(7,141)	W	(19,393)	W	1,282,113

<sup>1</sup>During the year, the Company has capitalized borrowing costs amounting to ₩ 2,047 million are included for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4%~4.8%.

<sup>2</sup>Consists of ₩ 19,360 million of transfers to investment properties and ₩ 33 million of transfers to inventories for the year ended December 31, 2023 (see Notes 8 and 14).

(in millions of Korean won)

	2022													
	Beginning balance		Acquisition		Disposal		Depreciation		Impairment		Reclassification, etc. <sup>1</sup>		Ending balance	
Land	W	380,873	W	-	W	(229)	W	-	W	-	W	(22,644)	W	358,000
Buildings		286,645		14,140		(351)		(20,086)		-		(9,108)		271,240
Structures		8,526		826		(53)		(1,379)		-		253		8,173
Machinery		357,715		32,936		(987)		(58,684)		(235)		33,444		364,189
Vehicles		144		55		-		(69)		-		-		130
Tools		9,689		8,338		(25)		(4,451)		(410)		-		13,141
Equipment		27,700		11,604		(200)		(13,940)		(101)		1,324		26,387
Others		4,161		20		-		-		-		178		4,359
Construction in progress		53,504		117,234		(126)		-		(20)		(38,372)		132,220
Total	W	1,128,957	W	185,153	W	(1,971)	W	(98,609)	W	(766)	W	(34,925)	W	1,177,839

<sup>1</sup>Consists of ₩ 714 million which was reclassified to inventories, ₩ 230 million which was reclassified to intangible assets, and ₩ 33,981 million which was reclassified to investment property for the year ended December 31, 2022 (see Notes 8, 13 and 14).

### 13. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Industrial property rights	₩ 20,600	₩ (1,353)	₩ 19,247	₩ 13,879	₩ (870)	₩ 13,009
Facility usage rights	30,739	-	30,739	30,739	-	30,739
Intangible assets under development	26,438	-	26,438	28,291	-	28,291
Other intangible assets	105,713	(48,217)	57,496	77,765	(27,319)	50,446
Total	₩ 183,490	₩ (49,570)	₩ 133,920	₩ 150,674	₩ (28,189)	₩ 122,485

(b) Changes in intangible assets for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc.	Ending balance
Industrial property rights	₩ 13,009	₩ 1,602	₩ (117)	₩ (521)	₩ -	₩ 5,274	₩ 19,247
Facility usage rights	30,739	-	-	-	-	-	30,739
Intangible assets under development	28,291	13,202	-	-	(600)	(14,455)	26,438
Other intangible assets	50,446	19,815	(1,031)	(20,901)	-	9,167	57,496
Total	₩ 122,485	₩ 34,619	₩ (1,148)	₩ (21,422)	₩ (600)	₩ (14)	₩ 133,920

(in millions of Korean won)

	2022						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. <sup>1</sup>	Ending balance
Industrial property rights	₩ 9,110	₩ 1,684	₩ (39)	₩ (314)	₩ -	₩ 2,568	₩ 13,009
Facility usage rights	30,521	525	(307)	-	-	-	30,739
Intangible assets under development	42,808	18,549	-	-	(139)	(32,927)	28,291
Other intangible assets	14,924	18,587	(30)	(13,624)	-	30,589	50,446
Total	₩ 97,363	₩ 39,345	₩ (376)	₩ (13,938)	₩ (139)	₩ 230	₩ 122,485

<sup>1</sup>Consists of ₩ 230 million which was reclassified from property, plant and equipment for the year ended December 31, 2022 (see Note 12).

(c) Research and development expenditures recognized as expenses for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Cost of sales	₩ 2,286	₩ 264
Selling, general and administrative expenses	22,782	22,799
Total	₩ 25,068	₩ 23,063

### 13. Intangible Assets (cont'd)

#### (d) Individually significant intangible assets

Details of individually significant intangible assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	Useful lives	2023		2022	
SAP system development	-	₩	134	₩	8,839
	4 years		45,893		36,185
Total		₩	46,027	₩	45,024

### 14. Investment Properties

#### (a) Details of investment properties as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 401,367	₩ -	₩ 401,367	₩ 564,610	₩ -	₩ 564,610
Buildings	739,982	(297,307)	442,675	725,620	(262,720)	462,900
Construction in progress	148,481	-	148,481	1,707	-	1,707
Total	₩ 1,289,830	₩ (297,307)	₩ 992,523	₩ 1,291,937	₩ (262,720)	₩ 1,029,217

#### (b) Changes in investment property for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023						
	Beginning balance	Acquisition <sup>1</sup>	Disposal	Depreciation	Impairment	Reclassification, etc. <sup>2</sup>	Ending balance
Land	₩ 564,610	₩ -	₩ (812)	₩ -	₩ -	₩ (162,431)	₩ 401,367
Buildings	462,900	-	(1,099)	(27,635)	-	8,509	442,675
Construction in progress	1,707	16,551	-	-	-	130,223	148,481
Total	₩ 1,029,217	₩ 16,551	₩ (1,911)	₩ (27,635)	₩ -	₩ (23,699)	₩ 992,523

<sup>1</sup>During the year, the Company has capitalized borrowing costs amounting to ₩ 1,992 million are included for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4%~4.8%.

<sup>2</sup>Consists of ₩ 43,059 million of transfers to inventories and ₩ 19,360 million of transfers from property, plant and equipment for the year ended December 31, 2023 (see Notes 8 and 12).

#### 14. Investment Properties (cont'd)

(in millions of Korean won)

	2022							
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. <sup>1</sup>	Ending balance	
Land	₩ 618,528	₩ 5,755	₩ (248)	₩ -	₩ -	₩ (59,425)	₩ 564,610	
Buildings	465,877	11,643	(759)	(26,804)	(21,928)	34,871	462,900	
Construction in progress	44,065	2,561	-	-	-	(44,919)	1,707	
Total	₩ 1,128,470	₩ 19,959	₩ (1,007)	₩ (26,804)	₩ (21,928)	₩ (69,473)	₩ 1,029,217	

<sup>1</sup>Consists of ₩ 80,807 million reclassified to inventories and ₩ 33,981 million reclassified from property, plant and equipment and ₩ 22,647 million reclassified to assets held for sale for the year ended December 31, 2022 (see Notes 8, 12 and 15).

(c) Details of profit or loss recognized related to the investment properties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Rental income	₩ 84,922	₩ 83,906
Operating expenses	(28,136)	(26,804)
Total	₩ 56,786	₩ 57,102

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩ 1,326,553	₩ 401,367	₩ 1,575,559	₩ 397,276
Buildings	569,934	442,675	575,695	438,244
Total	₩ 1,896,487	₩ 844,042	₩ 2,151,254	₩ 835,520

The fair value of the major investment property is determined by the value measured by an independent valuation agency using the return-value method, etc., and is classified as Level 3 based on the inputs used in the valuation technique in the fair value hierarchy.

#### 14. Investment Properties (cont'd)

Details of investment properties where book values are deemed to be fair values since their fair values cannot be measured reliably are as follows:

(in millions of Korean won)

	Type	Carrying amount		Reason why fair value cannot be measured reliably
		2023	2022	
Hogye-dong development site	Land	₩ -	₩ 124,575	
	Construction in progress	134,847	-	
Ssangmun-dong development site <sup>1</sup>	Land	-	1,495	
	Building	-	24,656	
Mia-dong development site <sup>1</sup>	Land	-	41,264	
	Construction in progress	-	717	Construction in progress
Donggwang-dong development site	Construction in progress	7,627	475	
Anyang-dong development site	Construction in progress	6,007	364	
Nokbeon-dong development site <sup>1</sup>	Construction in progress	-	151	
		₩ 148,481	₩ 193,697	

<sup>1</sup>The construction of the Ssangmun-dong development site was completed for the year ended December 31, 2023, and Mia-dong and Nokbeon-dong development sites were excluded as their use was changed to sale.

#### (e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2023, variable lease payment that is based on an index or a rate was ₩ 2,107 million. Even though the Company is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of future minimum lease payments that the Company expects to receive from operating lease contracts for the investment properties described above as of December 31, 2023, are as follows:

(in millions of Korean won)

	2023			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩ 70,103	₩ 95,434	₩ 20,812	₩ 186,349

## 15. Assets Held for Sale

There are no changes for the year ended December 31, 2023, and changes in assets held for sale for the year ended December 31, 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>	
Beginning balance	₩	14,901
Reclassification <sup>1</sup>		23,806
Disposal		(38,707)
Ending balance	₩	-

<sup>1</sup>Consists of ₩ 22,647 million reclassified from investment property and ₩ 1,159 million reclassified from investments in associates for the year ended December 31, 2022 (see Note 14).

## 16. Right-of-use Assets

(a) Details of carrying amount of right-of-use assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>			<b>2022</b>		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Buildings	₩ 28,355	₩ (7,367)	₩ 20,988	₩ 24,165	₩ (5,166)	₩ 18,999
Machinery	-	-	-	117	(59)	58
Vehicles	11,713	(6,402)	5,311	14,824	(8,241)	6,583
Total	₩ 40,068	₩ (13,769)	₩ 26,299	₩ 39,106	₩ (13,466)	₩ 25,640

(b) Changes in right-of-use assets for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Buildings	₩ 18,999	₩ 10,253	₩ (2,140)	₩ (6,124)	₩ 20,988
Machinery	58	-	-	(58)	-
Vehicles	6,583	3,168	(278)	(4,162)	5,311
Total	₩ 25,640	₩ 13,421	₩ (2,418)	₩ (10,344)	₩ 26,299

**16. Right-of-use Assets (cont'd)**

(in millions of Korean won)

	<b>2022</b>				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Buildings	₩ 14,357	₩ 9,389	₩ (90)	₩ (4,657)	₩ 18,999
Machinery	-	120	(3)	(59)	58
Vehicles	8,287	2,938	(242)	(4,400)	6,583
Total	₩ 22,644	₩ 12,447	₩ (335)	₩ (9,116)	₩ 25,640

(c) The amount recognized on the separate statements of comprehensive income related to lease for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>	<b>2022</b>
Depreciation expense	₩ 10,344	₩ 9,116
Interest expense	737	400
Short-term lease expense	331	355
Lease payment for low-value assets	508	479
Variable lease expense	1,192	845
Loss on lease contract adjustments	(58)	(2)
Total	₩ 13,054	₩ 11,193

For the year ended December 31, 2023, total cash outflows related to lease is ₩ 10,921 million (2022: ₩ 10,127 million).

(d) The Company has provided some of its offices, which are represented as right-of-use assets, through a sublease, and classified the lease to operating lease since most of the risks and rewards of ownership of the assets are not transferred in a sublease.

For the year ended December 31, 2023, the Company has recognized, ₩ 20 million of lease payment income arising from sublease.

## 17. Borrowings and Bonds

(a) Short-term borrowings as of December 31, 2023 and 2022, are summarized as follows:

(in millions of Korean won)

	Lender	2023		2022	
Limit loan	NH Nonghyup Bank	₩	-	₩	19
Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank		-		75
	Hana Card		-		19
	Subtotal		-		94
	Total	₩	-	₩	113

<sup>1</sup>The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings. No interest expense is incurred on payment guarantees.

(b) Details of bond as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)	Issuance date	Maturity	Annual interest rate (%)	2023		2022	
2-1st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩	100,000	₩	-
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322		200,000		-
		Subtotal			300,000		-
		Discount on debentures			(835)		-
		Total		₩	299,165	₩	-
Current				₩	-	₩	-
Non-current					299,165		-
		Total		₩	299,165	₩	-

## 18. Trade and Other Payables

Details of trade and other payables as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)	2023				2022			
	Current		Non-current		Current		Non-current	
Leasehold deposits received	₩	24,256	₩	20,891	₩	25,511	₩	19,996
Trade payables		186,676		-		152,816		-
Withholdings		5,205		-		4,962		-
Value-added deposit		184,207		-		168,710		-
Accrued expenses		277,035		31,047		188,461		25,490
Other payables		738,896		-		685,277		-
Total	₩	1,416,275	₩	51,938	₩	1,225,737	₩	45,486



## 19. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Defined benefit plan:				
Current service cost	₩	28,294	₩	31,791
Net interest on net defined benefit liabilities (assets)		(3,142)		(297)
Past service cost		-		4,084
Subtotal		<u>25,152</u>		<u>35,578</u>
Defined contribution plan:				
Contributions recognized as expense		5,203		5,190
Other long-term employee benefits:				
Current service cost, etc.		9,346		(645)
Termination benefits:				
Voluntary retirements, etc.		355		13,450
Total	₩	<u>40,056</u>	₩	<u>53,573</u>

(b) Changed in net defined benefit liabilities (assets) for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	(79,454)	₩	(11,136)
Current service cost		28,294		31,791
Past service cost		-		4,084
Net interest of net defined benefit liabilities (assets)		(3,142)		(297)
Remeasurement element of net defined benefit liabilities (assets) (before tax)		26,481		(53,614)
Payment amount		2,393		(2,481)
Payment of plan assets		(18,000)		(47,801)
Ending balance	₩	<u>(43,428)</u>	₩	<u>(79,454)</u>
Separate statements of financial positions:				
Present value of defined benefit obligations	₩	391,192	₩	353,822
Fair value of plan assets		(434,620)		(433,276)
Total	₩	<u>(43,428)</u>	₩	<u>(79,454)</u>

## 19. Employee Benefits (cont'd)

(c) Changes in the present value of defined benefit obligation for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	353,822	₩	388,559
Current service cost		28,294		31,791
Interest expenses		17,258		9,661
Past service cost		-		4,084
Remeasurement element (before tax)		26,329		(55,504)
Payment amount		(34,511)		(24,769)
Ending balance	₩	391,192	₩	353,822

(d) Changes in fair value of plan assets for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	433,276	₩	399,695
Interest income		20,400		9,958
Remeasurement element (before tax)		(152)		(1,890)
Payment amount		(36,904)		(22,288)
Payment of plan assets		18,000		47,801
Ending balance	₩	434,620	₩	433,276

The actual interest income from plan assets for each of the two years in the period ended December 31, 2023 are ₩ 20,248 million and ₩ 8,068 million, respectively.

(e) Changes in the present value of other long-term employee benefits for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	25,490	₩	28,285
Current service cost		2,940		3,366
Past service cost		2,733		112
Interest cost		1,249		707
Remeasurement element		2,424		(4,830)
Payment amount		(1,851)		(2,150)
Ending balance	₩	32,985	₩	25,490

## 19. Employee Benefits (cont'd)

(f) Remeasurements recognized in other comprehensive income for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ 849	₩ (422)
Changes in financial assumptions	(19,818)	64,465
Experience adjustments	(7,360)	(8,539)
Subtotal	<u>₩ (26,329)</u>	<u>₩ 55,504</u>
Loss from plan assets, excluding amounts included in net interest	₩ (152)	₩ (1,890)
Remeasurement element of net defined liabilities (assets) (before tax)	(26,481)	53,614
Tax effect	6,991	(14,208)
Remeasurement element of net defined liabilities (assets) (after tax)	<u>₩ (19,490)</u>	<u>₩ 39,406</u>

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Regular deposits and cash equivalents	₩ 58	₩ 20,948
Principal and interest guarantee financial assets, etc.	434,562	412,328
Total	<u>₩ 434,620</u>	<u>₩ 433,276</u>

(h) The major assumptions used for actuarial evaluation as of December 31, 2023 and 2022, are as follows:

<i>(in percent)</i>	<u>2023</u>	<u>2022</u>
Discount rate	4.24	5.16
Expected wage increase rate	3.97	4.04

To calculate the present value of the defined benefit obligation, the Company decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2023.

## 19. Employee Benefits (cont'd)

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>Increase by 1%p</u>	<u>Decrease by 1%p</u>
Changes in discount rate	(25,856)	29,603
Changes in expected wage increase rate	30,017	(26,651)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2023.

(j) Effects of defined benefit plan on future cash flow

The Company maintains its policy of reviewing the level of contribution in the pension fund at the end of each fiscal year and making up any losses that may occur in the fund.

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2024 is ₩ 30,154 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2023 and 2022, are 7.36 years and 6.73 years, respectively.

The expected maturity analysis of undiscounted pension benefits as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>Less than 1 year</u>		<u>Between 1-2 years</u>		<u>Between 2-5 years</u>		<u>Over 5 years</u>		<u>Total</u>	
December 31, 2023	₩	35,549	₩	47,710	₩	147,437	₩	970,773	₩	1,201,469
December 31, 2022		37,986		45,964		145,069		905,124		1,134,143

## 20. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,780	₩ -	₩ 4,172	₩ -
Refund liabilities	5,221	2,575	5,197	1,592
Provision for site restoration	84	111	84	102
Provision for financial guarantee	18	26	-	134
Provision for greenhouse gases	51	-	194	-
Total	₩ 7,154	₩ 2,712	₩ 9,647	₩ 1,828

(b) Changes in refund liabilities and provisions for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 1,780	₩ (4,172)	₩ 1,780
Refund liabilities	6,789	1,550	(543)	7,796
Provision for site restoration	186	123	(114)	195
Provision for financial guarantee	134	30	(120)	44
Provision for greenhouse gases	194	-	(143)	51
Total	₩ 11,475	₩ 3,483	₩ (5,092)	₩ 9,866

(in millions of Korean won)

	2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ 1,949	₩ (2,692)	₩ 4,172
Refund liabilities	5,526	4,340	(3,077)	6,789
Provision for site restoration	141	155	(110)	186
Provision for financial guarantee	271	-	(137)	134
Provision for greenhouse gases	269	-	(75)	194
Total	₩ 11,122	₩ 6,444	₩ (6,091)	₩ 11,475

## 20. Refund Liabilities and Provisions (cont'd)

(c) For returnable sales, the Company sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2023 amount to ₩ 746 million (as of December 31, 2022: ₩ 775 million).

(d) The Company sets up provision for product warranties by estimating the expected warranty amount at the time of sales.

(e) The Company's provision for site restoration is established by estimating the expected future recovery cost of the leased assets. The Company includes the recovery cost of leased assets to the acquisition cost of right-of-use assets, and such expenditure is expected to occur at the end of the contract term for the leased asset.

(f) The Company's provision for financial guarantee is recognized by estimating the amount of joint guarantees for mid payment loan provided to the buyer related to the off-plan sales construction of Suwon Hwaseo Prugio Briciel and ePyeonhansesang Daejeon station Centum Vista.

(g) In relation to greenhouse gas emissions, the Company recognizes provision for greenhouse gases by estimating the book value of the greenhouse gas emission rights that are exercised during the year as well as future expenses expected to be burdened by the Company as a result of emissions exceeding the greenhouse gas emission rights for that year.

## 21. Share Capital and Other Capital Surplus

Details of share capital and other capital surplus as of December 31, 2023 and 2022, are as follows:

<i>(in shares and millions of Korean won)</i>	2023	2022
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share <i>(in won)</i>	₩ 5,000	₩ 5,000
Issued	133,822,497 shares	137,292,497 shares
Share capital	954,959	954,959
Other capital surplus	4,030	3,582

As 57,169,400 shares (including 3,470,000 shares for the year ended December 31, 2023) of the Company have been written off in profit there is a difference of ₩ 285,847 million between the total face value of the equity and the issued shares.

## 22. Treasury Shares and Gain on disposal of Treasury Shares

(a) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2023 and 2022, are as follows:

<i>(in shares and millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Number of treasury shares	21,012,574 shares	21,012,574 shares
Treasury shares	₩ (1,236,933)	₩ (1,236,933)
Gain on disposal of treasury shares	528,894	528,894

(b) Changes in the number of treasury shares for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in shares)</i>	<u>2023</u>	<u>2022</u>
Beginning balance	21,012,574	17,312,574
Acquisition of treasury shares	3,470,000	3,700,000
Retirement of treasury shares	(3,470,000)	-
Ending balance	<u>21,012,574</u>	<u>21,012,574</u>

The Company has acquired 3,470,000 treasury shares (2022: 3,700,000 treasury shares) through a transaction on exchange and retired the all-treasury shares acquired during the year ended December 31, 2023.

## 23. Reserves

(a) Details of reserves as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Profit reserve	₩ 602,937	₩ 602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,972,198	5,564,596
Loss on valuation of financial assets at fair value through other comprehensive income or loss	(48,392)	(65,164)
Total	<u>₩ 7,238,475</u>	<u>₩ 6,814,101</u>

### 23. Reserves (cont'd)

① Profit reserve

The commercial law stipulates that the Company shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of December 31, 2023 and 2022, the profit reserve set aside in excess of 50% of the Company's share capital is ₩ 125,457 million.

② Reserve for business rationalization

Until 2002, the Company had put the tax deduction amount under the Tax Specialization Act as the corporate rationalized reserve, which could only be used to preserve and transfer capital losses. However, the Act on Restriction of Special Taxes was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

③ Reserve for business expansion and other reserve

In addition to the above-mentioned reserves, the Company can reserve for business expansion and unconditionally with no particular purpose. These reserves can be used for other purposes according to the resolutions of the shareholders' meeting.

(a) Details of gain and loss on valuation of fair value through other comprehensive income or loss as of December 31, 2023 and 2022, are as follows:

*(in millions of Korean won)*

	<b>2023</b>	<b>2022</b>
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	₩ (65,781)	₩ (88,659)
Tax effect	17,389	23,495
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	<u>₩ (48,392)</u>	<u>₩ (65,164)</u>



## 24. Retained Earnings

(a) Changes in retained earnings for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	989,001	₩	877,117
Dividends paid		(720,936)		(575,904)
Transfer to other reserve		(407,602)		(301,213)
Retirement of treasury shares		(302,728)		-
Profit for the year		804,855		958,040
Transfer of loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		-		(8,445)
Remeasurements of net defined benefit liabilities (after tax)		(19,490)		39,406
Ending balance	₩	343,100	₩	989,001

(b) The appropriation of retained earnings for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Unappropriated retained earnings carried over from prior year	₩	-	₩	-
Profit for the year		804,855		958,040
Interim dividends paid		(139,537)		-
Profit retirement of treasury stock		(302,728)		-
Transfer of loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		-		(8,445)
Remeasurements of net defined benefit liabilities (after tax)		(19,490)		39,406
Transfer of other reserves		108,140		-
Retained earnings available for appropriation		451,240		989,001
Appropriation of retained earnings				
Dividends <sup>1</sup> (Cash dividends (%)):		(451,240)		(581,400)
Ordinary share:				
2023: 4,000 (80%)				
2022: 5,000 (100%)				
Transfer to other reserve		-		(407,601)
Unappropriated retained earnings to be carried forward	₩	-	₩	-

<sup>1</sup>The appropriation of retained earnings for the year end December 31, 2023 is expected to be appropriated at the shareholder's meeting on March 28, 2024. The appropriation date for the year ended December 31, 2022 was March 28, 2023.

## 25. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sales contracts for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2023					
				Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative) <sup>2</sup>	Revenue (period)	Cost (cumulative) <sup>3</sup>	
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ 121,255	₩ 338,101	
ePyeonghansesang Daejeon station Centum Vista	December 2022	June 2026	33.35	226,951	193,218	64,384	63,859	53,683	
Nokbeon-dong Mixed-Use building	April 2023	February 2025	35.22	29,720	25,220	8,882	8,882	5,819	
Elif Mia station Complex 1	May 2023	August 2026	18.33	61,562	39,511	7,229	7,229	5,323	
Elif Mia station Complex 2	May 2023	August 2026	17.62	155,141	102,705	18,088	18,088	12,866	
Gireum-dong Neighborhood Commercial Facilities	July 2023	December 2023	100.00	27,580	27,580	27,580	27,580	1,832	
Total				₩ 1,304,010	₩ 1,136,204	₩ 874,109	₩ 246,893	₩ 417,624	

<sup>1</sup>Includes the expected sales value for commercial buildings, efficiency apartments that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

<sup>2</sup>This is the amount after deducting prepayment discounts, etc. from the total sales contract value.

<sup>3</sup>Excludes cumulative cost for common infrastructure, amounting to ₩ 227,608 million.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2022				
				Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>2</sup>	Cost (cumulative) <sup>3</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	83.52	₩ 803,056	₩ 750,352	₩ 626,691	₩ 381,817	₩ 282,858
ePyeonghansesang Daejeon station Centum Vista	December 2022	June 2026	3.07	226,951	17,066	525	525	413
Total				₩ 1,030,007	₩ 767,418	₩ 627,216	₩ 382,342	₩ 283,271

<sup>1</sup>Includes the expected sales value for commercial buildings, efficiency apartments that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

<sup>2</sup>Excludes ₩ 4,208 million of sales revenue of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of December 31, 2022.

<sup>3</sup>Excludes cumulative cost for common infrastructure, amounting to ₩ 102,090 million.

## 25. Real Estate Pre-sales Contracts (cont'd)

(b) Details of receivables and payables for ongoing real estate pre-sales contracts as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Construction project	2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots <sup>1</sup>	Advanced receipts for sale in lots <sup>2</sup>
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 708,687	₩ 39,500	₩ 241
ePyeonhangesang Daejeon station Centum Vista	64,384	23,852	41,250	718
Nokbeon-dong Mixed-use building	8,882	-	8,882	-
Elif Mia station Complex 1	7,229	4,815	2,505	91
Elif Mia station Complex 2	18,088	12,529	5,782	223
Gireum-dong Neighborhood Commercial Facilities	27,580	27,580	-	-
Total	₩ 874,109	₩ 777,463	₩ 97,919	₩ 1,273

<sup>1</sup>As of December 31, 2023, contract assets unclaimed to customers are ₩ 58,406 million, and it will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

<sup>2</sup>Includes advanced receipts for the option contract (balcony) in relation to the main construction, which is recognized using the percentage of completion method.

(in millions of Korean won)

Construction project	2022			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots <sup>1</sup>	Advanced receipts for sale in lots <sup>2</sup>
Suwon Hwaseo Prugio Briciel	₩ 626,691	₩ 375,778	₩ 252,461	₩ 1,548
ePyeonhangesang Daejeon station Centum Vista	525	1,770	-	1,245
Total	₩ 627,216	₩ 377,548	₩ 252,461	₩ 2,793

<sup>1</sup>As of December 31, 2022, contract assets unclaimed to customers is ₩ 251,531 million, and it will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

<sup>2</sup>Includes advanced receipts for the option contract (balcony) in relation to the main construction, which is recognized using the percentage of completion method.

(c) No material changes in the estimated total contract revenues and total contract costs have occurred during the year ended December 31, 2023, except for Suwon Hwaseo Prugio Briciel. In the case of Suwon Hwaseo Prugio Briciel, the estimated total contract cost decreased by ₩ 10,712 million as compared to that of the date of acquiring control. The estimated total contract revenues and total contract costs of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2023 and subject to change in the future.

## 25. Real Estate Pre-sales Contracts (cont'd)

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Construction project	2023		2022	
	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>
Suwon Hwaseo Prugio Briciel	₩ -	₩ 1,465	₩ -	₩ 3,528
ePyeonghansesang Daejeon station Centum Vista	-	93	-	-
Elif Mia station Complex 1	-	322	-	-
Elif Mia station Complex 2	-	666	-	-
Sangbong station Ubora First Live and Four Square	6,626	774	-	3,319
Total	₩ 6,626	₩ 3,320	₩ -	₩ 6,847

<sup>1</sup>Excludes advanced receipts for the option contract (balcony) in relation to main construction, which is recognized using the percentage of completion method.

(e) Advanced receipts for sale in lots are a contract liability arising from a contract with a customer. The amount recognized as revenue for the year ended December 31, 2023 in relation to contract liabilities as of January 1, 2023 is ₩ 7,851 million, and the amount recognized as revenue for the year ended December 31, 2022 in relation to contract liabilities as of January 1, 2022 is ₩ 3,131 million.

(f) As of December 31, 2023, the trade receivables for sale in lots which were classified as current receivables as they are expected to be realized within the normal operating cycle, but expected to be realized after 12 months from December 31, 2023 amounts to ₩ 32,752 million.

## 26. Operating Expenses

(a) Details of expenses classified by nature, incurred for each of the two years in the period ended December 31, 2023 are as follows:

*(in millions of Korean won)*

	<b>2023</b>	<b>2022</b>
Changes in inventories	₩ (99,798)	₩ (198,101)
Raw materials etc. used and merchandise purchased	1,308,096	1,318,275
Salaries	442,450	427,738
Retirement and termination benefits	30,710	54,218
Depreciation	139,560	134,529
Amortization	21,422	13,938
Employee welfare	68,550	54,128
Advertising	90,206	94,684
Commissions	217,158	234,913
Other expenses	436,599	439,742
Total	<u>₩ 2,654,953</u>	<u>₩ 2,574,064</u>

**26. Operating Expenses (cont'd)**

(b) Details of selling, general and administrative expenses for each of the two years in the period ended December 31, 2023 are as follows:

*(in millions of Korean won)*

	<b>2023</b>		<b>2022</b>	
Salaries	₩	296,962	₩	295,739
Retirement and termination benefits		20,970		37,805
Employee welfare		46,801		36,828
Travel expenses		13,690		13,085
Communication cost		2,677		2,764
Utilities		13,758		12,041
Taxes and dues		20,272		26,253
Supplies		2,263		2,184
Rent		8,855		8,388
Depreciation		33,402		32,826
Amortization		16,435		13,814
Repairs and maintenance		6,546		6,571
Vehicles		3,203		3,652
Insurance		1,385		862
Commissions		153,140		179,178
Freight and custody		22,240		20,158
Conferences		3,195		2,789
Advertising		90,124		94,593
Education and training		5,839		3,565
Prizes and rewards		2,173		2,263
Research and development		22,782		22,799
Reversal of impairment loss on trade receivables		(13,223)		(20,405)
Total	₩	773,489	₩	797,752

## 27. Other Income and Expense

(a) Details of other income for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023		2022	
Gain on foreign currency transaction	₩	32,038	₩	75,879
Gain on foreign currency translation		32,156		107,686
Gain on valuation of derivatives		13,901		33,742
Reversal of impairment loss on other receivables		2,880		1,538
Gain on disposal of property, plant and equipment		3,897		4,436
Gain on disposal of intangible assets		3		-
Gain on disposal of investment property		7,242		1,901
Gain on lease contract adjustments		73		6
Gain on disposal of assets held for sale		-		32,030
Gain on disposal of investments in associates and joint ventures		9		19,962
Miscellaneous income		7,598		15,007
Total	₩	99,797	₩	292,187

(b) Other expense for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023		2022	
Loss on foreign currency transaction	₩	19,124	₩	19,800
Loss on foreign currency translation		34,948		42,244
Loss on valuation of derivatives		21,214		65,277
Loss on impairment of other receivables		-		13,894
Loss on disposal of property, plant and equipment		1,825		742
Loss on impairment of property, plant and equipment		7,141		766
Loss on disposal of intangible assets		117		76
Loss on impairment of intangible assets		600		139
Loss on disposal of investment properties		86		731
Loss on impairment of investments properties		-		21,928
Loss on disposal of assets held for sale		-		1,218
Loss on impairment of investments in subsidiaries		-		20,793
Loss on lease contract adjustments		15		4
Donations		3,925		5,235
Miscellaneous loss		2,047		553
Total	₩	91,042	₩	193,400

## 28. Finance Income and Costs

(a) Details of finance income and costs for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Finance income:				
Interest income <sup>1</sup>	₩	63,037	₩	30,084
Dividend income		63,769		54,183
Gain on valuation of financial assets measured at fair value through profit or loss		41,126		67,348
Total finance income	₩	167,932	₩	151,615
Finance costs:				
Interest expense	₩	9,406	₩	1,966
Loss on valuation of financial assets measured at fair value through profit or loss		21,935		42,468
Others financial expenses		-		10,300
Total finance costs	₩	31,341	₩	54,734
Net finance income	₩	136,591	₩	96,881

<sup>1</sup>The interest income generated from financial assets measured at amortized cost.

(b) Details of interest income included in finance income for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Deposits	₩	11,367	₩	6,936
Trade and other receivables		16,807		8,051
Long-term deposits		34,863		15,097
Total	₩	63,037	₩	30,084



## 28. Finance Income and Costs (cont'd)

(c) Details of interest expense included in finance cost for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Trade and other payables	₩ 7,378	₩ 1,505
Lease liabilities	650	400
Loans	1,378	61
Total <sup>1</sup>	₩ 9,406	₩ 1,966

<sup>1</sup>₩ 4,081 million of capitalized borrowing costs on qualifying assets is excluded from interest expense for the years ended December 31, 2023.

## 29. Income Tax Expense and Deferred Tax Assets

(a) Details of income tax expense for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Current tax on profits for the year	₩ 291,181	₩ 355,222
Adjustments with respect to past income taxes, etc.	6,216	(845)
Increase/decrease from temporary differences	(25,163)	3,545
Income tax expense	₩ 272,234	₩ 357,922

**29. Income Tax Expense and Deferred Tax Assets (cont'd)**

(b) Details of the relationship between income tax expense and accounting profit for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Profit before income tax expense	₩	1,077,089	₩	1,315,962
Tax rate (%)		25.44		26.71
Tax expense calculated at applicable rates		273,989		351,527
Adjustments:				
Non-taxable income		(766)		(865)
Expenses not deductible for tax purposes		2,190		1,527
Changes in unrecognized amount of deferred tax due to temporary differences, etc.		2,433		7,069
Tax credit		(13,213)		(2,972)
Adjustments with respect to past income taxes		6,216		(845)
Others		1,385		2,481
Income tax expense	₩	<u>272,234</u>	₩	<u>357,922</u>
Average effective tax rate (%)		25.27		27.20

(c) Details of current and deferred income tax related to items recognized outside profit or loss for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Deferred tax:				
Gain or loss on valuation of financial assets measured at fair value through other comprehensive income	₩	(6,106)	₩	3,342
Remeasurements of the net defined benefit liability		6,991		(14,208)
Total	₩	<u>885</u>	₩	<u>(10,866)</u>

## 29. Income Tax Expense and Deferred Tax Assets (cont'd)

(d) Changes in deferred income tax assets (liabilities) for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income (loss)	Ending balance
Accumulated depreciation	₩ 16,117	₩ 3,211	₩ -	₩ 19,328
Loss allowance	50,251	(4,448)	-	45,803
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	19,827	3,396	(6,106)	17,117
Accrued expenses	47,732	(217)	-	47,515
Defined benefit liabilities	(20,764)	4,266	6,991	(9,507)
Treasury shares	(9,068)	34	-	(9,034)
Investments in subsidiaries	(68,563)	259	-	(68,304)
Advanced depreciation provision	(9,640)	37	-	(9,603)
Others	8,934	18,625	-	27,559
Total	₩ 34,826	₩ 25,163	₩ 885	₩ 60,874

(in millions of Korean won)

	2022			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income (loss)	Ending balance
Accumulated depreciation	₩ 10,802	₩ 5,315	₩ -	₩ 16,117
Loss allowance	55,447	(5,196)	-	50,251
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	15,708	777	3,342	19,827
Accrued expenses	43,838	3,894	-	47,732
Defined benefit liabilities	(6,511)	(45)	(14,208)	(20,764)
Treasury shares	(9,411)	343	-	(9,068)
Investments in subsidiaries	(71,150)	2,587	-	(68,563)
Advanced depreciation provision	(10,004)	364	-	(9,640)
Others	20,519	(11,584)	-	8,934
Total	₩ 49,238	₩ (3,545)	₩ (10,866)	₩ 34,826

## 29. Income Tax Expense and Deferred Tax Assets (cont'd)

(e) Temporary differences related to investment in subsidiaries etc. which are deductible (taxable) as of December 31, 2023 and 2022, are as follows. They have not been recognized as deferred tax assets (liabilities) since it does not seem probable in the foreseeable future that they will not be realized:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Deductible temporary differences	₩	428,996	₩	419,767
Taxable temporary differences		(280,078)		(280,078)
Total	₩	148,918	₩	139,689

## 30. Earnings Per Share

(a) The relationship between EPS and accounting profit for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won, Korean won, and shares)</i>	<b>2023</b>		<b>2022</b>	
Profit for the period attributable to owners of the Company	₩	804,855	₩	958,040
Weighted average number of ordinary shares outstanding (in shares)		115,096,170		119,657,375
Basic an diluted EPS (in Korean won)		6,993		8,007

(b) The relationship between EPS and accounting profit for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in shares)</i>	<b>2023</b>			
	Date	Number of shares	Days	Weighted number of shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(21,012,574)	365	(7,669,589,510)
Acquisition and retirement of treasury shares	Aug. 4, etc. ~ Dec. 31	(3,470,000)	101~150	(432,070,000)
Total				42,010,101,895
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				115,096,170



**30. Earnings Per share (cont'd)**

(in shares)

		<b>2022</b>		
	<b>Date</b>	<b>Number of shares</b>	<b>Days</b>	<b>Weighted number of shares</b>
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(17,312,574)	365	(6,319,089,510)
Acquisition of treasury shares	Nov. 4, etc. ~ Dec. 31	(3,700,000)	5~58	(117,730,000)
Total				<u>43,674,941,895</u>
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				119,657,375

The weighted average number of ordinary shares is the number of ordinary shares acquired and disposed of during the period or the number of newly issued ordinary shares, adjusted to take into account the weighting of each period.

### 31. Related Parties

(a) Details of the Company's related parties as of December 31, 2023 and 2022, are as follows:

Type	Name of entity	Location	Percentage of ownership (%)					
			2023			2022		
			Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation	Korea	100.00	-	100.00	100.00	-	100.00
	Yungjin Pharm. Co., Ltd.	Korea	52.45	-	52.45	52.45	-	52.45
	Tae-A Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Tuntun Mamulleri Sanyı ve Ticaret A.S.	Turkiye	99.99	-	99.99	99.99	-	99.99
	Korea Tabacos do Brasil Ltda.	Brazil	99.99	-	99.99	99.99	-	99.99
	KT&G Pars	Iran	99.99	-	99.99	99.99	-	99.99
	KT&G Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00
	KT&G USA Corporation	USA	100.00	-	100.00	100.00	-	100.00
	Cosmococs Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56
	Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	100.00	-	100.00	100.00	-	100.00
	PT KT&G Indonesia <sup>2</sup>	Indonesia	-	-	-	99.99	-	99.99
	PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	6.56	93.43	99.99	-	99.99	99.99
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Global Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00
	Gwacheon Sangsang PFV. Inc.	Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation	Taiwan	100.00	-	100.00	100.00	-	100.00
	Mastern No.144 PFV Co. Ltd.	Korea	92.50	-	92.50	92.50	-	92.50
	KT&G Global Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-
	KT&G Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-
	DNC Deogeun Co., Ltd. <sup>4</sup>	Korea	38.25	-	38.25	-	-	-
	K&I China Co., Ltd.	China	-	98.56	98.56	-	98.56	98.56
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00
	KGC Life&Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00
	Korea Red Ginseng Corp., Inc.	USA	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng Corp. Japan	Japan	-	100.00	100.00	-	100.00	100.00
	PT Nusantara Indah Makmur	Indonesia	-	99.96	99.96	-	99.96	99.96
	Edn the pine central Seocho Co., Ltd.	Korea	78.65	-	78.65	-	-	-
	LitePharmTech Co., Ltd. <sup>5</sup>	Korea	12.53	-	12.53	12.53	-	12.53
	KORAMCO Banpo PFV Co., Ltd. <sup>5</sup>	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>5</sup>	Korea	19.47	-	19.47	19.47	-	19.47
KOCREF 36 REIT	Korea	21.01	-	21.01	21.01	-	21.01	
KOCREF 41 REIT <sup>6</sup>	Korea	26.47	-	26.47	26.47	-	26.47	
AndaStation Professional Investment Private REIT No.1	Korea	21.43	-	21.43	21.43	-	21.43	
Cheongna Medipolis PFV Co.,Ltd. <sup>7</sup>	Korea	51.01	-	51.01	56.74	-	56.74	
INNODIS Co., Ltd. <sup>5</sup>	Korea	19.64	-	19.64	19.64	-	19.64	
SJ BIO MED Co., Ltd. <sup>5,8</sup>	Korea	14.39	-	14.39	14.39	-	14.39	
LSK Global Pharma Services Co., Ltd.	Korea	21.92	-	21.92	22.73	-	22.73	
Mirae Asset KT&G Investment Fund <sup>9</sup>	Korea	45.00	5.00	50.00	45.00	5.00	50.00	
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	-	35.00	35.00	-	-	-	
KB KT&G New Growth Fund <sup>10</sup>	Korea	66.67	-	66.67	-	-	-	
KORAMCO Europe Private REIT 3-2 Fund <sup>11</sup>	Germany	51.35	-	51.35	51.35	-	51.35	
Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00	

<sup>1</sup>The percentage of ownership is including 6,978,948 convertible preferred stocks (₩ 25,291 million) of Renzoluc Pte., Ltd.

<sup>2</sup>PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged with PT KT&G Indonesia, the subsidiary of the Company, during the year ended December 31, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makmur in exchange for 104,986 (99.99%) shares of PT KT&G Indonesia. The consolidated percentage of ownership of PT Trisakti Purwosari Makmur is 99.99%, including shares held by Renzoluc Pte., Ltd., the subsidiary of the Company, as of December 31, 2023.



### **31. Related Parties (cont'd)**

<sup>3</sup>The Company newly established 100.00% of KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the year ended December 31, 2023, and the Company has classified the shares as investments in subsidiaries.

<sup>4</sup>The Company has acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries. As the Company holds substantial decision-making right over related activities that has significant impact on the profit or losses of the Company through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

<sup>5</sup>The Company has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the investee with its right to participate in the investee's Board of Directors meetings in accordance with the agreement with shareholders.

<sup>6</sup>The Company has reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the investee with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2022.

<sup>7</sup>The Company has classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>8</sup>As of December 31, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>9</sup>The Company and Korea Ginseng Corporation, the subsidiary of the Company, acquired 50.00% of Mirae Asset KT&G Investment Fund I during the year ended December 31, 2022, and the Company classified the shares as investments in associates.

<sup>10</sup>Although the ownership exceeds 50%, the Company has classified the ownership as investment in associates as the Company does not have control over related activities and has significant influence through participating on investment decision-making authority.

<sup>11</sup>The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

### 31. Related Parties (cont'd)

(b) The Company conducts transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for each of the two years in the period ended December 31, 2023 are as follows:

#### ① Sales and other income

(in millions of Korean won)

Type	Name of entity		2023		2022	
Subsidiaries	Korea Ginseng Corporation	₩	14,541	₩	11,252	
	Yungjin Pharm. Co., Ltd.		1,377		616	
	Tae-A Industrial Co., Ltd.		964		412	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>		19,827		13,918	
	Korea Tabacos do Brasil Ltda. <sup>1</sup>		-		4	
	KT&G Rus L.L.C. <sup>1</sup>		42,823		54,935	
	KT&G USA Corporation <sup>1</sup>		18		-	
	Cosmocos Co., Ltd.		105		29	
	PT KT&G Indonesia <sup>1</sup>		-		627	
	PT Trisakti Purwosari Makmur <sup>1</sup>		54,288		44,428	
	SangSang Stay Inc.		4,948		4,872	
	KT&G Global Rus L.L.C. <sup>1</sup>		6,203		249	
	Gwacheon Sangsang PFV. Inc.		37,107		21,079	
	KT&G Taiwan Corporation		13,525		6,124	
	KT&G Kazakhstan LLP		16		-	
	KT&G Global Kazakhstan LLP		3,442		-	
	KGCyebon Corporation		35		21	
	KGC Life&Gin Co., Ltd.		322		329	
	Associates	KOCREF 36 REIT		1,200		1,200
		KOCREF 41 REIT		2,087		1,646
AndaStation Professional Investment Private REIT No.1			954		954	
Kiwoom Milestone Private REIT No.16 <sup>2</sup>			-		1,399	
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund		-		1,298	
	Starfield Suwon Inc.		7		-	
	Total	₩	203,789	₩	165,392	

<sup>1</sup>Excludes impairment loss (reversal) of ₩ 7,371 million (2022: ₩ (7,664) million) in relation to the related parties for the year ended December 31, 2023.

<sup>2</sup>The Company excluded the entity from its related parties, as the entity was sold to the third-party for the year ended December 31, 2022.



### 31. Related Parties (cont'd)

#### ② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	2023		2022	
Subsidiaries	Korea Ginseng Corporation	₩	2,228	₩	1,587
	Yungjin Pharm. Co., Ltd.		224		302
	Tae-A Industrial Co., Ltd.		34,835		32,632
	Korea Tabacos do Brasil Ltda.		315		340
	KT&G Rus L.L.C.		-		120
	Cosmococ Co., Ltd.		28		334
	PT Trisakti Purwosari Makmur		-		7
	SangSang Stay Inc.		524		251
	KGCyebon Corporation		821		1,572
	KGC Life&Gin Co., Ltd.		247		35
	Associates	INNODIS Co., Ltd.		270	
Joint ventures	Starfield Suwon Inc.		-		68
Total		₩	39,492	₩	37,970

### 31. Related Parties (cont'd)

(c) Details of account balances of receivables and payables with related companies as of December 31, 2023 and 2022, are summarized as follows:

(in millions of Korean won)

Type	Name of entity	2023		2022	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	W 2,965	W 2,967	W 14	W 2,210
	Yungjin Pharm. Co., Ltd. <sup>2</sup>	4,903	50	-	67
	Tae-A Industrial Co., Ltd.	4	6,423	-	4,492
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	34,655	-	46,130	-
	Korea Tabacos do Brasil Ltda. <sup>1,2</sup>	122	-	122	-
	KT&G Pars <sup>1,2</sup>	44,526	-	44,526	-
	KT&G Rus L.L.C. <sup>1</sup>	98,785	-	70,857	-
	KT&G USA Corporation <sup>1</sup>	53,094	322	53,094	317
	Cosmococ Co., Ltd.	9	-	-	-
	SangSang Stay Inc.	28	-	-	-
	PT KT&G Indonesia <sup>1,2</sup>	-	-	26,296	-
	PT Trisakti Purwosari Makmur <sup>1,2</sup>	404,956	-	100,450	-
	KT&G Global Rus L.L.C. <sup>1</sup>	7,322	-	167	-
	Gwacheon Sangsang PFV, Inc. <sup>2</sup>	57,763	2,222	21,079	-
	KT&G Taiwan Corporation	1,684	-	4,380	-
	KT&G Kazakhstan LLP	380	-	-	-
	KT&G Global Kazakhstan LLP <sup>2</sup>	12,244	-	-	-
	KGCyebon Corporation	3	7,747	-	8,362
	KGC Life&Gin Co., Ltd.	1	-	-	115
	Associates	AndaStation Professional Investment Private REIT No.1	481	-	481
INNODIS Co., Ltd.		-	-	-	35
Joint ventures	Starfield Suwon Inc.	8	37	70	-
	Total	W 723,933	W 19,768	W 367,666	W 15,598

<sup>1</sup>Presented in total amount before deducting loss allowance of ₩ 145,113 million and ₩ 137,742 million as of December 31, 2023 and 2022.

<sup>2</sup>Includes loans or dividends receivable to related parties.

(d) Details of purchase and sale of property, plant and equipment, intangible assets (including assets held for sale) and right-of-use assets from related parties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	2023		2022	
		Purchase of property, plant and equipment	Sale of property, plant and equipment	Purchase of property, plant and equipment	Sale of property, plant and equipment
Subsidiaries	Korea Ginseng Corporation	W 14	W -	W -	W -
	KT&G Rus L.L.C.	-	-	-	5
	PT Trisakti Purwosari Makmur	-	3,120	-	6,699
	Total	W 14	W 3,120	W -	W 6,704

### 31. Related Parties (cont'd)

(e) Details of fund transactions with related parties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	2023				2022					
		Equity investment	Loan of funds	Repayment of lease liabilities	Equity recovery	Equity investment	Loan of funds	Repayment of lease liabilities	Equity recovery		
Subsidiaries	Yungjin Pharm. Co., Ltd.	W	-	W	4,500	W	-	W	-	W	-
	Tae-A Industrial Co., Ltd.		65,000	-	-		-	-	-		-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		25,624	-	-		-	-	49,457		-
	SangSang Stay Inc.		30,000	-	-		-	-	-		-
	PT Trisakti Purwasari Makmur		-	279,204	-	-	-	-	-	76,154	-
	KT&G Kazakhstan LLP		35,910	-	-		-	-	-	-	-
	KT&G Global Kazakhstan LLP		18,510	9,319	-	-	-	-	-	-	-
	KGCyebon Corporation		-	-	616	-	-	-	-	605	-
	DNC Deogeun Co., Ltd.		35,552	-	-	-	-	-	-	-	-
	Edn the pine central Seocho Co., Ltd.		35,000	-	-	-	-	-	-	-	-
Associates	KOCREF 41 REIT		-	-	-		29,489	-	-		12,279
	Cheongna Medipolis PFV Co., Ltd.		83,978	-	-		-	-	-		-
	Kiwoom Milestone Private REIT No.16 <sup>1</sup>		-	-	-		-	-	-		30,603
	Mirae Asset KT&G Investment Fund I		4,500	-	-		4,500	-	-		-
	KB KT&G New Growth Fund 1		3,000	-	-		-	-	-		-
	Starfield Suwon Inc.		100,000	-	-		-	-	-		-
	KORAMCO Europe Private REIT 3-2 Fund		-	-	-	32		-	-		-
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>		-	-	-		-	-	-		24,353
	KORAMCO Amsa PFV Co., Ltd. <sup>2</sup>		-	-	-		-	-	-		1,749
	Total	W	437,074	W	293,023	W	616	W	32	W	83,446
		W	76,154	W	605	W	68,984				

<sup>1</sup>The Company excluded the entity from its related parties, as the entity was sold to the third-party for the year ended December 31, 2022.

<sup>2</sup>Since the entity was fully liquidated for the year ended December 31, 2022, it is excluded from related parties.

(f) As of December 31, 2023, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan (see Note 34 (c)).

(g) During the year ended December 31, 2023, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococ Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds, debt repayment and other management-related business support.

(h) The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc.'s operation is approved. In the event that the Company or the joint venturer wishes 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.

(i) The Company has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2023, a capital contribution has been completed. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

### 31. Related Parties (cont'd)

(j) The Company is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.

(k) As of December 31, 2023, the Company has entered into a capital call agreement in relations to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

(l) The Company has entered into a capital contribution agreement in relations to Mirae Asset KT&G Investment Fund I and KB KT&G New Growth Fund 1, with the ceiling of ₩ 28,000 million. As of December 31, 2023, the remaining contribution amount is ₩16,000 million, and the detailed timeline for contribution is yet to be determined (see Note 34 (d)).

(m) The Company has a joint disposal right to require other investors to dispose their ownership under the same conditions of the Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Company dispose the shares by obtaining the approvals from Board of Directors and Shareholders, the Company has a pre-emptive right to purchase the shares under the condition notified by those shareholders. However, the pre-emptive right to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to the Company.

(n) The Company has entered into an agreement to extend the maturity of loans to PT Trisakti Purwosari Makmur worth at USD 100,816 thousand, during the year ended December 31, 2023. And the Company has entered into an agreement to extend the maturity of loans to PT Trisakti Purwosari Makmur (former PT KT&G Indonesia) worth at USD 20,750 thousand, and loans to Korea Tabacos do Brasil Ltd. worth at ₩ 94 million, respectively during the year ended December 31, 2022.

(o) As of December 31, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Notes 10 and 34 (c)).

(p) On November 23, 2023, the Company was ordered to pay the sewage fee of ₩ 6,350 million for 1 block of Daeyuhyeong District by Suwon City, and Starfield Suwon Inc. completed the payment (see Note 34 (d)).

(q) Key management personnel compensation for each of the two years in the period ended December 31, 2023 are as follows:

*(in millions of Korean won)*

	2023		2022	
Long (short)-term employee benefits	₩	21,091	₩	19,631
Retirement benefits		2,249		2,456
Total	₩	23,340	₩	22,087

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

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

#### (a) Market risk

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

#### ① Currency risk

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

The carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2023 and 2022, are as follows:

	<i>(in millions of Korean won)</i>			
	2023		2022	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩ 2,247,803	₩ 124,456	₩ 1,888,954	₩ 76,585
IDR	9,660	83	6,156	-
EUR	1,473	28,229	1,600	43,076
Others	119,699	6,974	80,310	14,576
Total	₩ 2,378,635	₩ 159,742	₩ 1,977,020	₩ 134,237

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2023 and 2022, are as follows:

	<i>(in millions of Korean won)</i>			
	2023		2022	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩ 221,889	₩ (221,889)	₩ 184,278	₩ (184,278)

### 32. Risk Management and Fair Value of Financial Instruments (cont'd)

#### ② Price risk

The Company is exposed to other price risks related to fluctuations of fair values and future cash flows of assets measured at fair value through other comprehensive income or loss, that may be caused by the changes in market prices of listed stocks the Company invests in. The Company's management regularly measures the risk that the fair values or future cash flows may fluctuate due to the changes in market prices of the listed stocks the Company invests in. Material investments in the Company's portfolio are individually managed, for which acquisitions and disposals are required to be approved by the Company management.

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	₩ (1,835)	₩ 1,835	₩ 5,029	₩ (5,029)

#### ③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Company as of December 31, 2023, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

### 32. Risk Management and Fair Value of Financial Instruments (cont'd)

#### (b) Credit risk

The Company is exposed to credit risk that one of the contracting parties to the financial instrument may incur financial losses to the other party due to the failure of performing its obligations. To manage such credit risk, the Company management only transacts with parties over certain level of creditworthiness, and establishes and manages the credit enhancement policies and procedures for financial assets. The Company evaluates the creditworthiness of new transacting parties using the financial information disclosed upon entering the contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Company then receives collaterals and/or payment guarantees as necessary. In addition, the Company periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay. The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Cash and cash equivalents (excluding cash on hand) <sup>1</sup>	₩	210,389	₩	601,641
Other financial assets		186,443		180,950
Financial assets measured at fair value through profit or loss <sup>1</sup>		680,149		1,044,615
Trade and other receivables		1,688,653		1,436,857
Long-term deposits		1,479,737		1,437,130
Derivative assets		7,751		23,069
Total	₩	<u>4,253,122</u>	₩	<u>4,724,262</u>

<sup>1</sup>As of December 31, 2022, money market trust and others amounting to ₩ 337,906 million classified as cash equivalents are included in the financial assets at fair value through profit or loss.

#### (c) Liquidity risk

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

### 32. Risk Management and Fair Value of Financial Instruments (cont'd)

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2023 and 2022, is as follows:

(in millions of Korean won)

		2023					
Carrying amount	Contractual cash flow	Remaining maturity of contract					
		Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years		
Bond	W 299,165	W 331,086	W 3,206	W 9,618	W 318,262	W -	
Trade and other payables	1,097,480	1,101,570	1,064,462	12,249	17,836	7,023	
Lease liabilities	23,939	25,624	2,104	5,009	13,761	4,750	
Total	W 1,420,584	W 1,458,280	W 1,069,772	W 26,876	W 349,859	W 11,773	

(in millions of Korean won)

		2022					
Carrying amount	Contractual cash flow	Remaining maturity of contract					
		Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years		
Short-term borrowings	W 113	W 113	W 113	W -	W -	W -	
Trade and other payables	900,384	902,525	868,732	11,902	17,168	4,723	
Lease liabilities	24,340	26,353	2,200	5,488	13,165	5,500	
Total	W 924,837	W 928,991	W 871,045	W 17,390	W 30,333	W 10,223	

The cash flows of financial liabilities per maturity remaining, as stated above, are undiscounted nominal values. The above cash flows have been calculated by using the earliest date from the period of time that the Company can be requested to make payment, and includes cash flows for interest.

As of December 31, 2023, the Company provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of Suwon Hwaseo Prugio Briciel and ePyeonhangesang Daejeon station Centum Vista (guarantee limit: ₩ 84,720 million, remaining contract maturity: 1 ~ 3 years) and has recognized a financial guarantee provision liability of ₩ 44 million (2022: ₩ 134 million) (see Notes 20 (f) and 34 (c)).

In addition, the Company provides contribution commitment for debt/equity instruments, capital call agreement for overseas property fund and others. Maximum exposure of liquidity risk in relation to such agreements are equal to the agreed amount (see Note 34 (d)).



### 32. Risk Management and Fair Value of Financial Instruments (cont'd)

(d) The carrying amounts of each category of financial instruments as of December 31, 2023 and 2022, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Financial assets:		
Financial assets at measured fair value through profit or loss <sup>1</sup>	₩ 680,149	₩ 1,044,615
Financial assets measured at fair value through other comprehensive income or loss	182,106	159,228
Derivative assets	7,751	23,069
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	210,392	601,644
Other financial assets	186,443	180,950
Trade and other receivables	1,688,653	1,436,857
Long-term deposits	1,479,737	1,437,130
Subtotal	<u>3,565,225</u>	<u>3,656,581</u>
Total financial assets	<u>₩ 4,435,231</u>	<u>₩ 4,883,493</u>
Financial liabilities:		
Financial liabilities measured at amortized cost		
Short-term borrowings	₩ -	₩ 113
Bond	299,165	-
Trade and other payables	1,097,480	900,384
Lease liabilities	23,939	24,340
Subtotal	<u>1,420,584</u>	<u>924,837</u>
Total financial liabilities	<u>₩ 1,420,584</u>	<u>₩ 924,837</u>

<sup>1</sup>As of December 31, 2022, money market trust worth ₩ 337,906 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

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

### 32. Risk Management and Fair Value of Financial Instruments (cont'd)

Details of the fair value of financial instruments measured by each hierarchy as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩ 680,149	₩ -	₩ 299,639	₩ 380,510
Financial assets measured at fair value through other comprehensive income or loss	182,106	173,106	-	9,000
Derivative assets	7,751	-	7,751	-
Total financial assets	₩ 870,006	₩ 173,106	₩ 307,390	₩ 389,510

(in millions of Korean won)

	2022			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩ 1,044,615	₩ -	₩ 693,490	₩ 351,125
Financial assets measured at fair value through other comprehensive income or loss	159,228	150,228	-	9,000
Derivative assets	23,069	-	23,069	-
Total financial assets	₩ 1,226,912	₩ 150,228	₩ 716,559	₩ 360,125

<sup>1</sup>As of December 31, 2022, money market trust amounting to ₩ 337,906 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There is no movement between the levels of the fair value hierarchy for each of the two years in the period ended December 31, 2023.

## 32. Risk Management and Fair Value of Financial Instruments (cont'd)

As of December 31, 2023 and 2022, the fair value of investment trust's equity securities classified as financial assets 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 each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023		2022	
Beginning balance	₩	360,125	₩	312,642
Acquisition		64,056		84,464
Disposal		(28,454)		(18,578)
Transfers		-		(28,300)
Changes in fair value		(6,217)		9,897
Ending balance	₩	389,510	₩	360,125

(f) Details of net gains or loss by each financial instruments for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023					
	Financial assets measured at fair value through profit or loss	Financial assets measured at 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	₩ -	₩ -	₩ -	₩ 63,037	₩ -	₩ 63,037
Dividend income	12,809	9,780	-	-	-	22,589
Gain or loss on valuation	19,191	-	(7,312)	-	-	11,879
Gain on lease contract adjustments	-	-	-	-	58	58
Interest expense	-	-	-	-	(9,406)	(9,406)
Reversal of impairment loss	-	-	-	16,103	-	16,103
Total	₩ 32,000	₩ 9,780	₩ (7,312)	₩ 79,140	₩ (9,348)	₩ 104,260
Other comprehensive income before tax						
Net change in fair value	₩ -	₩ 22,878	₩ -	₩ -	₩ -	₩ 22,878

(in millions of Korean won)

	2022					
	Financial assets measured at fair value through profit or loss	Financial assets measured at 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	₩ -	₩ -	₩ -	₩ 30,084	₩ -	₩ 30,084
Dividend income	16,440	8,818	-	-	-	25,258
Gain or loss on valuation	24,880	-	(31,535)	-	-	(6,655)
Gain on disposal	-	(10,300)	-	-	2	(10,298)
Interest expense	-	-	-	-	(1,966)	(1,966)
Reversal of impairment loss	-	-	-	8,049	-	8,049
Total	₩ 41,320	₩ (1,482)	₩ (31,535)	₩ 38,133	₩ (1,964)	₩ 44,472
Other comprehensive loss before tax						
Net change in fair value	₩ -	₩ (14,444)	₩ -	₩ -	₩ -	₩ (14,444)

### 33. Capital Management

The purpose of capital management of the Company is to maintain its viability as a continuous company and maximize shareholder profits by maintaining a sound capital structure and minimizing capital procurement costs. The Board of Directors is striving to balance the return on higher borrowing with sound financial position.

The Company manages capital on a capital basis with net liabilities (assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous fiscal year. Details on the Company's capital structure as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Total borrowings	₩ 299,165	₩ 113
Less: Cash and cash equivalents	(210,392)	(939,550)
Less: Current other financial assets	(102,403)	(138,540)
Less: Current financial instruments measured at fair value through profit or loss	(342,933)	(393,106)
Net liabilities (assets)	₩ (356,563)	₩ (1,471,083)
Total equity	₩ 7,832,525	₩ 8,053,604

### 34. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2023, the Company has 5 cases of pending litigations under progress where the Company is the defendant and the litigation amounts are ₩ 55,025 million. It is not possible to reasonably predict the impact of the outcome of pending litigation on the financial statements of the Company as of December 31, 2023.

(b) Commitments with financial institutions

Details of the Company's major arrangements with financial institutions as of December 31, 2023, are as follows:

*(in millions of Korean won or thousands of US dollars)*

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank	USD	100,000	87,583
Derivatives trading <sup>1</sup>	Kookmin Bank and five others	USD	214,016	10,374
Limit loan	NH Bank and three others	KRW	800,000	-

<sup>1</sup>Derivatives are composed of foreign exchange forward contracts and are held for trading as of December 31, 2023.

As of December 31, 2023, the Company has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 115,100 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Company as of December 31, 2023, are as follows:

*(in millions of Korean won or thousands of US dollars)*

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	118,597	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	6,220	License guarantee, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

### 34. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2023, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Company for other parties as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	2023		2022		Details of guarantee
		Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	₩ 76,720	₩ 9,160	₩ 76,720	₩ 52,530	Loan guarantee for the intermediate payment of off-plan sales construction <sup>1</sup>
Buyer of ePyeonghansesang Daejeon station Centum Vista	Hana Bank	8,000	515	-	-	

<sup>1</sup>The amount guaranteed by Korea Housing & Urban Guarantee Corporation (80%) from the guarantee limit as describe in the intermediate payment loan agreement is excluded from the amount.

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payment received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 17).

Details of assets pledged as collaterals as of December 31, 2023, are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment properties	₩ 422,872	₩ 20,523	₩ 26,729	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
Other financial assets and other receivables	5,203	-	5,203	Korea Land & Housing Corporation	Establishment of a pledge for porperty development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
	600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Financial assets measured at fair value through profit or loss	4,960	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Investments in Associates	5,306	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	₩ 439,538	₩ 21,120	₩ 43,835		

<sup>1</sup>Equity holdings of all investors in KORAMCO Banpo PFV Co., Ltd. are pledged as collaterals for a PF loan amounting to ₩ 90,000 million.

### 34. Contingent Liabilities and Commitments (cont'd)

Details of restricted financial assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		2023		2022	
Other financial assets and other receivables	Establishment of a pledge for property development	₩	5,203	₩	10,310
	Collateral for unsecured site		-		1,553
	Establishment of a pledge for leasehold deposits		597		597
	Deposit in the Accompanied Growth Cooperation Loan Fund		100,000		100,000
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit		600		-
	Security deposits for checking accounts, etc.		2		-
Financial assets measured at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit		4,960		-
	Total	₩	111,362	₩	112,460

The contracted amount for the acquisition of major items of property, plant and equipment that have not yet been incurred as of December 31, 2023, is ₩ 286,506 million.

#### (d) Others

Each year, the Company deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement (“MSA”) legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Company inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Company, in whole, after 25 years from each date of deposit. The Company recognized ₩ 1,479,737 million in long-term deposits for MSA Escrow Fund as of December 31, 2023 (as of December 31, 2022: ₩ 1,437,130 million), and they consist of US treasury bonds, and demand deposits.

The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. under 50:50 ratio for the year ended December 31, 2023. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc.'s operation is approved. In the event that the Company or the joint venturer wishes 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.

On November 23, 2023, the Company was ordered to pay a sewage fee of ₩ 6,350 million for 1 block of Daeyuhyeon District by Suwon City, and Starfield Suwon Inc. completed the payment.

As of December 31, 2023, the Company is in a capital call agreement in relations to the Company's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

### **34. Contingent Liabilities and Commitments (cont'd)**

The Company has entered into a capital contribution agreement in relations to the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1, Smilegate New Deal Fund, etc., with the ceiling of ₩ 154,623 million. As of December 31, 2023, the remaining contribution amount is ₩ 62,954 million, and the detailed timeline for contribution is yet to be determined.

The Company has entered into a contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2023, a capital contribution has been completed. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

The Company is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.

The Company has a joint disposal right to require other investors to dispose their ownership under the same conditions of the Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Company dispose the shares by obtaining the approvals from Board of Directors and Shareholders, the Company has a pre-emptive right to purchase the shares under the condition notified by those shareholders. However, the pre-emptive right to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to the Company.

As of December 31, 2023, the Company is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (ePyeonhansesang Daejeon station Centum Vista, etc.) proceed by the Company.

The Company has obligated to return infrastructure such as roads and neighborhood parks to Suwon City for free related to sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district are completed in September 2023, additional expected costs due to fulfillment of infrastructure-related obligations are being reflected in construction costs.

In relation to the sales project of Elif Mia station Complex 1 and 2, the Company has an obligation to sell a portion of the residential and commercial facilities built by the Company at a low price and to donate roads to Seoul-City.

As of December 31, 2023, in relation to the Daejeon Station Centum Vista sales project, the Company has agreed with the constructor (DL Construction Co., Ltd.) to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of ₩ 6,074 million loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.



### 34. Contingent Liabilities and Commitments (cont'd)

During the year ended December 31, 2022, the Company has reached agreement with Bando Engineering & Construction Co., Ltd. to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, under the agreement. For prompting the construction, the Company also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until the point of completion. The construction was completed in October 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of December 31, 2023.

During the year ended December 31, 2023, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococ Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds, debt repayment and other management-related business support.

As of December 31, 2023, the Company and KT&G USA Corporation received a notification from the US Department of Justice (“DOJ”) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of December 31, 2023.

The Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of December 31, 2023, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Company's business in Russia and its financial position therein cannot be reasonably estimated as of December 31, 2023.

Pillar 2 legislation has been enacted or substantially enacted in some of the countries in which the Company operates. The Pillar 2 legislation will go into effect in the Company's fiscal year beginning on January 1, 2024. The Company has assessed its potential exposure to Pillar 2 corporate income tax as it falls within the scope of the enacted or substantially enacted Pillar 2 legislation. The assessment of potential exposure to Pillar 2 corporate income tax was based on the latest tax returns, the country level reporting, and financial statements of the Company's entities. The Company expects its exposure to Pillar 2 corporate income taxes in these countries to be immaterial.

### 35. Cash Flows

(a) Details of cash generated from operations for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
	₩		₩	
Profit for the year		804,855		958,040
Adjustments:				
Employee welfare		10,241		3,513
Retirement benefits		25,152		35,578
Loss on valuation or obsolescence of inventories		6,001		3,320
Depreciation		139,560		134,529
Amortization		21,422		13,938
Reversal of impairment loss on trade and other receivables		(16,103)		(8,049)
Loss on foreign currency translation		34,948		42,244
Loss on valuation of derivatives		21,214		65,277
Loss on disposal of property, plant and equipment		1,825		742
Loss on impairment of property, plant and equipment		7,141		766
Loss on disposal of intangible assets		117		76
Loss on impairment of intangible assets		600		139
Loss on disposal of investment properties		86		731
Loss on impairment of investment properties		-		21,928
Loss on disposal of assets held for sale		-		1,218
Loss on disposal of investments in subsidiaries		-		20,793
Other expenses, etc.		3,251		6,079
Finance cost		31,341		54,734
Share-based payment expenses		158		-
Income tax expense		272,234		357,922
Gain on foreign currency translation		(32,156)		(107,686)
Gain on valuation of derivatives		(13,901)		(33,742)
Gain on disposal of property, plant and equipment		(3,897)		(4,436)
Gain on disposal of intangible assets		(3)		-
Gain on disposal of investment property		(7,242)		(1,901)
Gain on disposal of assets held for sale		-		(32,030)
Gain on disposal of investments in associates and joint ventures		(9)		(19,962)
Other income, etc.		(7,982)		(7,451)
Finance income		(167,932)		(151,615)

### 35. Cash Flows (cont'd)

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Changes in working capital:		
Decrease (increase) in trade and other receivables	98,904	(433,226)
Decrease (increase) in derivatives	8,006	(54,931)
Increase in inventories	(62,708)	(119,140)
Decrease (increase) in accrued tobacco excise and other taxes	(46,407)	136,431
Decrease in advance payments	91	9,047
Decrease (increase) in prepaid expenses	(7,965)	5,180
Increase in trade and other payables	220,216	452,213
Increase (decrease) in advance receipts	(1,932)	2,232
Decrease in tobacco excise and other taxes payable	(30,773)	(104,360)
Decrease in provision for site restoration	(84)	(111)
Decrease in net defined benefit liabilities	(15,607)	(50,282)
Cash generated from operations	<u>₩ 1,292,662</u>	<u>₩ 1,197,748</u>

(b) Material transactions without cash inflow and outflow for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Reclassification of property, plant and equipment to investment properties	₩ 19,360	₩ 33,981
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	74,124	96,591
Increase (decrease) in other payables related to the acquisition of property, plant and equipment	(24,903)	56,219
Reclassification of investment properties to inventories	43,059	80,807

### 35. Cash Flows (cont'd)

(c) Changes in liabilities due to financing activities for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ -	₩ (720,936)	₩ 720,936	₩ -
Short-term borrowings	113	(1,511)	1,398	-
Bond	-	295,867	3,298	299,165
Lease liabilities	24,340	(8,890)	8,489	23,939
Total	₩ 24,453	₩ (435,470)	₩ 734,121	₩ 323,104

(in millions of Korean won)

	2022			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ -	₩ (575,904)	₩ 575,904	₩ -
Short-term borrowings	589	19	(495)	113
Lease liabilities	22,220	(8,449)	10,569	24,340
Total	₩ 22,809	₩ (584,334)	₩ 585,978	₩ 24,453

(d) The Company has presented the inflows and outflows from cash and cash equivalents, financial assets at fair value through profit or loss and others that have large total amounts and short maturities due to frequent transactions as a net increase/decrease amount.

### **36. Events After the Reporting Period**

On February 16, 2024, the Company retired 3,500,000 treasury shares with the resolution of the board of directors on February 7, 2024. On February 21, 2024, the Company disposed 6,120 treasury shares for the purpose of paying CEO's management performance bonus with the resolution of the board of directors on February 14, 2024.

In January 2024, the Company has contributed USD 40,000 thousand to KT&G Kazakhstan LLP, and EUR 32,350 thousand and USD 9,581 thousand to KT&G Tutun Mamulleri Sanayi ve Ticaret A.S, respectively.

In February 2024, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., and Cosmococ Co., Ltd., to provide operating funds, debt repayment and other management-related business support.

### **Audit opinion on internal control over financial reporting**

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of KT&G Corporation ("the Company") and the separate financial statements of the Company for the year ended December 31, 2023 in accordance with the Article 8 of the *Act on External Audit of Stock Companies*.

Attachments:

1. Independent auditor's report on internal control over financial reporting
2. Management's report on the effectiveness of internal control over financial reporting

## **Independent auditor's report on internal control over financial reporting**

(English Translation of a Report Originally Issued in Korean)

### **KT&G Corporation**

#### **The Shareholders and Board of Directors**

#### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting ("ICFR") of KT&G Corporation's (the "Company") based on the Conceptual Framework for Designing and Operation of ICFR established by the Operating Committee of ICFR in Korea(the "ICFR Committee") as of December 31, 2023.

In our opinion, the Company's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2023, in accordance with the Conceptual Framework for Design and Operation of ICFR.

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the statement of financial position as of December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including material accounting policies, and our report dated March 4, 2024 expressed an unqualified opinion thereon.

#### **Basis for opinion on ICFR**

We conducted our audit in accordance with KSA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of ICFR section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of ICFR in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting**

Management is responsible for designing, implementing and maintaining an effective ICFR, and for assessing the effectiveness of ICFR included in the accompanying Management's report on the effectiveness of internal control over financial reporting.

Those charged with governance have the responsibilities for overseeing the Company's ICFR process.

### **Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting**

Our responsibility is to express opinion on the Company's ICFR based on our audit. We conducted our audit in accordance with KSA. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective ICFR was maintained in all material respects.

An audit of the ICFR involves performing procedures to obtain audit evidence as to whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit also includes testing and evaluating the design and operation of of ICFR based on obtaining an understanding of ICFR and the assessed risk.

### **ICFR Definition and Inherent Limitations**

A company's ICFR is implemented by those charged with governance, management, and other employees and is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"). A company's ICFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with KIFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent, or detect misstatements of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that ICFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Jung-ik Park.



March 4, 2024

This report is effective as of March 4, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the Company's ICFR and may result in modifications to this report.



# Management's report on the effectiveness of internal control over financial reporting

## ICFR Operating Status Report by CEO

To the Shareholders, Board of Directors and Audit Committee of KT&G Company

We, as the Chief Executive Officer and the Internal Accounting Manager KT&G Company (the Company), assessed the operating status of the Company's Internal Control over Financial Reporting (ICFR) for the year ending December 31, 2023.

Design and operation of ICFR is the responsibility of the Company's management, including the Chief Executive Officer and the Internal Accounting Manager.

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee) as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' established by the ICFR Committee.

Based on our assessment, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2023, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

February 6, 2024

Bok In Baek  
Chief Executive Officer   
Yong Bum Kim  
Internal Accounting Manager 