

KT&G Corporation

Separate Interim Financial Statements

September 30, 2021

KT&G Corporation
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September 30, 2021 and 2020

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying separate interim financial statements of KT&G Corporation (the "Company"). These financial statements consist of the separate interim statement of financial position of the Company as at September 30, 2021, and the related separate interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2021, and separate interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2021, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of separate interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these separate interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying separate interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 3 to the separate interim financial statements of the Company. Note 3 to the separate interim financial statements of the Company describes uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's productivity and operating environments.

Other Matters

The separate interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2020, and separate interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2020, presented herein for comparative purposes, were reviewed by another auditor whose report dated November 13, 2020. Based on their review, nothing has come to their attention that causes them to believe the accompanying financial statements do not present fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Meanwhile, the separate statement of financial position of the Company as at December 31, 2020, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by another auditor who expressed an unqualified opinion on those statements, not presented herein, on March 11, 2021, in accordance with Korean Standards on Auditing. The separate statement of financial position as at December 31, 2020, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2020.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
November 12, 2021

This report is effective as of November 12, 2021, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT&G Corporation
Separate Interim Statements of Financial Position
September 30, 2021 and December 31, 2020



<i>(in Korean won)</i>	Notes	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	22	₩ 1,000,205,140,094	₩ 1,076,113,853,748
Current other financial assets	22,23	330,000,000,000	330,596,920,000
Current financial assets at fair value through profit or loss	22	963,995,609,358	914,423,857,131
Trade and other receivables	5,16,21,22	975,916,046,963	1,049,822,176,064
Current financial assets measured at fair value through other comprehensive income or loss	22	31,400,000,000	-
Derivative assets	22,23	-	12,710,170,259
Inventories	6	893,122,647,643	993,341,734,193
Refund assets and others		2,855,381,092	3,543,976
Accrued tobacco excise and other taxes		200,400,371,460	237,745,495,978
Advance payments		100,103,831,199	73,936,767,009
Prepaid expenses		14,482,250,727	17,536,265,109
Assets held for sale	21	2,000,000,000	2,000,000,000
Total current assets		4,514,481,278,536	4,708,230,783,467
Non-current assets			
Long-term other financial assets	22,23	10,907,220,000	8,540,300,000
Long-term deposits in MSA Escrow Fund	22,23	1,185,649,807,304	909,793,848,086
Long-term financial assets measured at fair value through profit or loss	22,23	268,914,573,524	248,604,519,223
Long-term trade and other receivables	5,21,22	116,665,189,455	121,173,935,824
Long-term financial assets measured at fair value through other comprehensive income or loss	22	186,265,465,984	214,394,237,251
Investments in associates and joint ventures	7,21,23	226,749,101,620	133,885,010,000
Investments in subsidiaries	8,21	1,150,681,726,261	1,154,257,150,910
Property, plant and equipment	9,21	1,123,043,179,622	1,139,629,710,585
Intangible assets	10	83,246,375,768	66,322,853,919
Investment properties	11,23	1,124,410,450,001	1,101,189,083,097
Right-of-use assets	12,21	25,246,685,036	29,047,382,278
Long-term prepaid expenses		7,349,244,393	8,594,020,771
Deferred income tax assets	20	38,437,937,618	35,880,808,023
Total non-current assets		5,547,566,956,586	5,171,312,859,967
Total assets		₩ 10,062,048,235,122	₩ 9,879,543,643,434
Liabilities			
Current liabilities			
Short-term borrowings	13,22,23	₩ 628,019,055	₩ 816,523,010
Trade and other payables	21,22,23	745,067,880,753	811,176,851,324
Current lease liabilities	21,22	8,485,040,981	8,618,991,597
Derivative liabilities	22,23	5,958,188,847	57,106,354
Advance receipts	16	72,995,200,740	96,211,657,084
Current refund liabilities and provisions	15,23	12,278,304,032	15,303,322,149
Current income tax liabilities	20	128,591,281,846	211,379,530,801
Tobacco excise and other taxes payables		709,703,380,750	574,390,725,117
Total current liabilities		1,683,707,297,004	1,717,954,707,436
Non-current liabilities			
Long-term trade and other payables	21,22,23	46,915,440,100	41,530,363,086
Long-term lease liabilities	21,22	17,493,043,522	20,277,850,236
Long-term advance receipts	16	4,954,981,642	6,625,435,705
Net defined benefit liabilities	14,21	50,601,384,397	38,161,141,512
Long-term refund liabilities and provisions	15,23	767,308,126	1,051,955,528
Total non-current liabilities		120,732,157,787	107,646,746,067
Total liabilities		1,804,439,454,791	1,825,601,453,503

KT&G Corporation
Separate Interim Statements of Financial Position
September 30, 2021 and December 31, 2020

<i>(in Korean won)</i>	Notes	September 30, 2021	December 31, 2020
Equity			
Share capital		954,959,485,000	954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(531,618,093,579)	(531,618,093,579)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,518,077,073,887	6,037,903,146,578
Retained earnings		783,714,100,209	1,060,221,437,118
Total equity		<u>8,257,608,780,331</u>	<u>8,053,942,189,931</u>
Total liabilities and equity	₩	<u>10,062,048,235,122</u>	₩ <u>9,879,543,643,434</u>

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

KT&G Corporation
Separate Interim Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2021 and 2020



(in Korean won)

	Notes	2021		2020	
		Three-month	Nine-month	Three-month	Nine-month
Sales	4,21	₩ 930,419,847,902	₩ 2,639,113,503,316	₩ 908,771,206,371	₩ 2,478,158,613,567
Manufacture of tobacco		713,588,882,967	2,056,569,050,448	763,608,083,070	2,011,656,134,610
Real estate	16	195,285,270,544	514,818,512,763	113,785,576,521	393,425,612,719
Exports of leaf tobacco and others		21,545,694,391	67,725,940,105	31,377,546,780	73,076,866,238
Cost of sales	21	(434,443,207,615)	(1,180,414,045,883)	(370,623,873,108)	(977,298,495,279)
Manufacture of tobacco		(308,110,088,965)	(866,984,386,166)	(299,368,015,592)	(757,500,552,353)
Real estate	16	(109,865,760,692)	(261,853,903,606)	(50,587,210,109)	(172,329,968,486)
Exports of leaf tobacco and others		(16,467,357,958)	(51,575,756,111)	(20,668,647,407)	(47,467,974,440)
Gross profit		495,976,640,287	1,458,699,457,433	538,147,333,263	1,500,860,118,288
Selling, general and administrative expense	17,21	(171,681,382,499)	(560,074,655,620)	(184,540,316,449)	(527,496,932,214)
Operating profit		324,295,257,788	898,624,801,813	353,607,016,814	973,363,186,074
Other income	18,21,22	91,739,979,742	164,115,246,607	13,232,713,484	97,782,174,335
Other expense	18,21,22	(16,299,435,724)	(39,893,261,396)	(47,594,838,491)	(101,776,405,663)
Finance income	19,21,22	11,383,689,047	49,660,291,253	12,392,636,289	99,985,574,432
Finance costs	19,21,22	(4,817,818,850)	(12,109,731,688)	(2,422,392,384)	(9,313,062,297)
Profit before income tax		406,301,672,003	1,060,397,346,589	329,215,135,712	1,060,041,466,881
Income tax expense	20	(108,697,422,760)	(282,534,949,872)	(87,871,996,585)	(283,089,694,792)
Profit for the period		₩ 297,604,249,243	₩ 777,862,396,717	₩ 241,343,139,127	₩ 776,951,772,089
Other comprehensive income (loss) for the period after income tax		₩ (3,290,433,808)	₩ 21,387,824,083	₩ 4,573,849,730	₩ (41,472,463,498)
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities		(114,405,648)	9,465,872,945	321,583,930	(2,864,923,775)
Gain (loss) on valuation of fair value through other comprehensive income or loss		(3,176,028,160)	11,921,951,138	4,252,265,800	(38,607,539,723)
Total comprehensive income for the period		₩ 294,313,815,435	₩ 799,250,220,800	₩ 245,916,988,857	₩ 735,479,308,591
Basic earnings per share					
Basic and diluted		₩ 2,398	₩ 6,269	₩ 1,921	₩ 6,153

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

KT&G Corporation
Separate Interim Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2021 and 2020



(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total Equity
Balance at January 1, 2020	₩ 954,959,485,000	₩ 3,582,160,908	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 5,723,185,728,271	₩ 888,251,673,785	₩ 7,780,083,652,411
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	776,951,772,089	776,951,772,089
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(2,864,923,775)	(2,864,923,775)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(38,607,539,723)	-	(38,607,539,723)
	-	-	-	-	(38,607,539,723)	(2,864,923,775)	(41,472,463,498)
Total comprehensive loss for the period	-	-	-	-	(38,607,539,723)	774,086,848,314	735,479,308,591
Transactions with owners of the Parent Company:							
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)
Acquisition of treasury shares	-	-	(212,828,644,120)	-	-	-	(212,828,644,120)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-
	-	-	(212,828,644,120)	-	331,300,012,585	(888,251,673,785)	(769,780,305,320)
Balance at September 30, 2020	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,015,878,201,133	₩ 774,086,848,314	₩ 7,745,782,655,682
Balance at January 1, 2021	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,037,903,146,578	₩ 1,060,221,437,118	₩ 8,053,942,189,931
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	777,862,396,717	777,862,396,717
Other comprehensive income for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	9,465,872,945	9,465,872,945
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	11,921,951,138	-	11,921,951,138
Transfer of gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	3,614,169,453	(3,614,169,453)	-
	-	-	-	-	15,536,120,591	5,851,703,492	21,387,824,083
Total comprehensive income for the period	-	-	-	-	15,536,120,591	783,714,100,209	799,250,220,800
Transactions with owners of the Parent Company:							
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)
Transfer to other reserve	-	-	-	-	464,637,806,718	(464,637,806,718)	-
	-	-	-	-	464,637,806,718	(1,060,221,437,118)	(595,583,630,400)
Balance at September 30, 2021	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,518,077,073,887	₩ 783,714,100,209	₩ 8,257,608,780,331

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

KT&G Corporation
Separate Interim Statements of Cash Flows
Nine-Month Periods Ended September 30, 2021 and 2020



<i>(in Korean won)</i>	Notes	2021	2020
Cash flows from operating activities			
Cash generated from operations	24	₩ 945,267,332,172	₩ 1,090,550,084,369
Income taxes paid		1,321,260,283,523	1,358,783,434,873
		(375,992,951,351)	(268,233,350,504)
Cash flows from investing activities		(419,762,992,841)	(135,769,920,512)
Interest received		4,393,485,826	13,864,314,111
Dividends received		20,733,308,832	21,063,012,677
Decrease in other financial assets		120,596,920,000	397,340,300,000
Decrease in current financial assets measured at fair value through profit or loss		157,635,467	89,729,738,580
Decrease in long-term financial assets measured at fair value through profit or loss		20,262,867,769	32,918,572,487
Decrease in long-term deposits in MSA Escrow Fund		443,725,928	30,190,725,542
Disposal of property, plant and equipment		6,006,236,056	7,298,713,692
Disposal of intangible assets		-	1,311,307,171
Disposal of investment properties		440,034,128	4,407,486,213
Disposal of assets held for sale		186,808,947	460,368,199
Decrease in financial assets at fair value through other comprehensive income or loss		72,839,804	2,134,000,000
Increase in financial assets at fair value through other comprehensive income or loss		(1,999,998,000)	-
Disposal of investments in associates and joint ventures		-	21,193,630,212
Collection of loans		12,100,075,563	9,314,423,151
Collection of guarantee deposits		23,668,634	-
Increase in other financial assets		(122,366,920,000)	(356,340,300,000)
Increase in financial assets measured at fair value through profit or loss		(41,757,468,151)	-
Increase in long-term financial assets measured at fair value through profit or loss		(53,169,758,761)	(5,822,500,000)
Increase in long-term deposits in MSA Escrow Fund		(184,692,613,474)	(166,094,254,862)
Acquisition of property, plant and equipment		(94,119,654,963)	(114,410,714,234)
Acquisition of intangible assets		(23,133,022,753)	(22,140,031,664)
Acquisition of investment properties		(12,657,390,553)	(77,540,719,255)
Acquisition of assets held for sale		-	(18,197,470)
Acquisition of investments in associates and joint ventures		(62,764,091,620)	(22,000,000,000)
Acquisition of investments in subsidiaries		(3,213,600,000)	-
Increase in loans		(5,285,110,048)	(2,629,678,407)
Increase in guarantee deposits		(20,971,472)	(116,655)
Cash flows from financing activities		(602,883,320,387)	(776,199,546,569)
Dividends paid		(595,583,630,400)	(556,951,661,200)
Interest paid		(1,127,960,061)	(545,065,837)
Repayment of lease liabilities		(6,171,729,926)	(5,874,175,412)
Acquisition of treasury shares		-	(212,828,644,120)
Net increase (decrease) in cash and cash equivalents		(77,378,981,056)	178,580,617,288
Cash and cash equivalents at the beginning of the period		1,076,113,853,748	656,775,412,332
Effect of exchange rate fluctuation on cash and cash equivalents		1,470,267,402	(381,499,406)
Cash and cash equivalents at the end of the period		₩ 1,000,205,140,094	₩ 834,974,530,214

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 2021, the Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 121 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Company’s major shareholders as of September 30, 2021, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	12,493,934	9.10
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,786,739	2.76
Treasury shares	13,212,574	9.62
Others	98,288,765	71.59
	137,292,497	100.00

2. Significant 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 (Korean IFRS). The accompanying separate interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Company's separate interim financial statements for the nine-month period ended September 30, 2021, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These separate interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as of September 30, 2021.

2.1.1 New and amended standards and interpretations adopted by the Company

(a) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform (Phase 2 amendments)

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship.

(b) Amendment to Korean IFRS 1116 - Covid-19 - Related Rent Concessions beyond June 30, 2021

The application of the practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. With early adoption of Korean IFRS 1116 *Lease*, the Company has changed the accounting policy for all the rent concessions that meet the requirements. The Company has applied the changed accounting policy, retrospectively, according to the transitional provisions. There was no cumulative impact of retrospective application and the Company did not restate comparatives for the 2020 reporting period. The Company recognized ₩ 2 million in profit or loss during the nine-month period ended September 30, 2021, to reflect changes in lease payments that arise from a rent concession.

As of September 30, 2021, the amendment does not have a significant impact on the financial statements.

2.1.2 New and amended standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations that have been published that are not mandatory for September 30, 2021 reporting periods and have not been early adopted by the Company.

(a) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

(b) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

(c) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

(d) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

(e) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

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. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

The Company is in review for the impact of these amendments on the financial statements.

2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the Separate interim financial statements are consistent with those of the Separate financial statements for the year ended December 31, 2020, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.1 and the one described below.

2.2.1 Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements 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. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these separate interim financial statements are the same as those applied to the separate financial statements for the year ended December 31, 2020, except for the estimates used to determine income tax expense and the one described below.

The spread of Coronavirus disease 2019 ("COVID-19") has a material impact on domestic and global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company, and the impact is expected to be continued to the separate annual financial statements in 2021.

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Significant accounting estimates and assumptions applied in the preparation of the separate interim financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot presently be determined.

4. Operating Segment

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

(in millions of Korean won)

			2021		2020	
			Three-month	Nine-month	Three-month	Nine-month
Revenue recognized at a point in time:						
Sales of tobacco/merchandise and service revenue	Korea	Wholesale, retail	₩ 534,920	₩ 1,472,965	₩ 528,278	₩ 1,433,801
		Direct sales	773	2,656	1,076	2,562
	Export	Wholesale, retail	179,257	584,348	235,840	578,829
Sale of semifinished tobacco products /raw materials and others	Korea	Direct sales	198	771	515	2,288
	Export	Direct sales	19,986	63,555	29,276	67,253
Subtotal			735,134	2,124,295	794,985	2,084,733
Revenue recognized over time:						
Sales and rental of real estate	Korea	Sales	175,990	457,095	95,820	340,061
	Korea	Rental	19,296	57,724	17,966	53,365
Subtotal			195,286	514,819	113,786	393,426
Total			₩ 930,420	₩ 2,639,114	₩ 908,771	₩ 2,478,159

5. Trade and Other Receivables

(a) Trade and other receivables as of September 30, 2021 and December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 855,431	₩ 20,851	₩ 974,705	₩ 18,253
Loans	15,378	58,458	15,042	61,465
Other receivables	69,151	13,174	31,112	13,213
Guarantee deposits	29,853	21,394	24,212	26,103
Accrued income	6,103	2,788	4,751	2,140
Total	₩ 975,916	₩ 116,665	₩ 1,049,822	₩ 121,174

(b) Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of September 30, 2021 and December 31, 2020, are as follows

<i>(in millions of Korean won)</i>	September 30, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,054,517	₩ 191,900	₩ 1,118,926	₩ 196,018
Allowances:				
Trade receivables	(78,170)	(45,961)	(68,240)	(43,569)
Other receivables	(431)	(29,274)	(864)	(31,275)
Total allowances	(78,601)	(75,235)	(69,104)	(74,844)
Net trade and other receivables	₩ 975,916	₩ 116,665	₩ 1,049,822	₩ 121,174

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 143,948	₩ 166,511
Impairment loss (reversal)	9,888	(10,279)
Ending balance	₩ 153,836	₩ 156,232

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 interim statements of comprehensive income.

6. Inventories

(a) Inventories as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)	September 30, 2021			December 31, 2020		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 16,354	₩ (1,308)	₩ 15,046	₩ 19,904	₩ (5,209)	₩ 14,695
Finished goods	106,007	(9,467)	96,540	114,936	(5,836)	109,100
Work in progress	14,005	-	14,005	13,252	-	13,252
Raw materials	654,215	(253)	653,962	736,865	(264)	736,601
Supplies	46,153	-	46,153	40,038	-	40,038
By-products	6,296	-	6,296	7,142	-	7,142
Buildings under construction	4,175	-	4,175	13,568	-	13,568
Completed buildings	21,049	-	21,049	1,490	-	1,490
Sites for construction of real estate	4,399	-	4,399	7,420	-	7,420
Goods in transit	31,498	-	31,498	50,036	-	50,036
Total	₩ 904,151	₩ (11,028)	₩ 893,123	₩ 1,004,651	₩ (11,309)	₩ 993,342

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Cost of sales:				
Loss on valuation of inventories (reversal)	₩ 3,393	₩ (281)	₩ (12,148)	₩ (6,255)
Loss on obsolescence of inventories	1925	4,192	8,266	9,279
Total	₩ 5,318	₩ 3,911	₩ (3,882)	₩ 3,024

7. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

(in millions of Korean won)		Location	Principal Operation	September 30, 2021		December 31, 2020	
				Percentage of ownership (%)	Carrying Amount	Percentage of ownership (%)	Carrying Amount
Associates	Lite Pharm Tech, Inc. ¹	Korea	Manufacturing medical supplies	16.30	₩ 1,830	16.75	₩ 1,830
	KORAMCO Ocheon Project Financial Investment Co., Ltd. ¹	Korea	Investing, Developing and Renting real estate	18.95	5,685	18.95	5,685
	KORAMCO Banpo Project Financial Investment Co., Ltd. ¹	Korea	Investing, Developing and Renting real estate	18.95	5,306	18.95	5,306
	KORAMCO Dongjak Project Financial Investment Co., Ltd. ¹	Korea	Investing, Developing and Renting real estate	19.47	1,850	19.47	1,850
	KORAMCO Amsa Project Financial Investment Co., Ltd. ¹	Korea	Investing, Developing and Renting real estate	17.84	1,159	17.84	1,159
	KOCREF Consigned-management REIT No.36 ²	Korea	Investing, Developing and Renting real estate	21.01	15,100	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	Investing, Developing and Renting real estate	21.43	17,764	-	-
	Kiwoom Milestone Private REIT No.16 ³	Korea	Investing, Developing and Renting real estate	45.50	15,000	-	-
	Others				55		55
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁴	Germany	Renting real estate	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	Developing and Renting real estate	50.00	144,500	50.00	99,500
					₩ 226,749		₩ 133,885

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

²It is reclassified as an investment in associates since the Company obtains significant influence through an increase in the shares due to the disproportionate reduction of capital of KOCREF Consigned-management REIT No.1 during the nine-month period ended September 30, 2021.

³It is reclassified as an investment in associates since the Company reassessed that it has significant influence over the invested company during the nine-month period ended September 30, 2021.

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

According to the liquidation procedure of KB Gimpo Logistics CR REIT Co., Ltd., and KORAMCO Private REIT 50 Fund during the year ended December 31, 2020, the Company has been allocated a portion of the remaining assets and has recognized a ₩ 2,208 million gain on disposal of investment in joint ventures.

The Company has acquired equity securities of the following companies during the year ended December 31, 2020 : KORAMCO Ocheon Project Financing Vehicle Co., Ltd. (284,250 shares for ₩ 5,685 million), KORAMCO Banpo Project Financing Vehicle Co., Ltd. (265,300 shares for ₩ 5,306 million), KORAMCO Dongjak Project Financing Vehicle Co., Ltd. (369,900 shares for ₩ 1,850 million) and KORAMCO Amsa Project Financing Vehicle Co., Ltd. (231,900 shares for ₩ 1,159 million).

The Company acquired debt securities of AndaStation Professional Investment Private REIT No.1 (18 billion shares, ₩ 17,764 million) during the nine-month period ended September 30, 2021.

The Company participated in Starfield Suwon Inc.'s rights offering to existing shareholders and acquired 900,000 equity securities for ₩ 45,000 million (2020: 1,750,000 equity securities for ₩ 87,500 million) during the nine-month period ended September 30, 2021.

8. Investments in Subsidiaries

(a) Details of investments in subsidiaries as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

Name of entity	Location	Principal operation	September 30, 2021		December 31, 2020	
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industry Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99	-	99.99	-
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	4,913	100.00	4,913
Cosmocos Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	21,830	98.56	22,759
Renzoluc Pte., Ltd. ¹	Singapore	Holding Company	100.00	148,834	100.00	148,834
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,240	99.99	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00	6,180	100.00	12,040
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	3,214	-	-
				₩ 1,150,682		₩ 1,154,257

¹The percentage of ownership does not include convertible preference shares, with 88.60% including preferred shares as of September 30, 2021.

For the year ended December 31, 2020, the Company has acquired 4,000,000 shares (₩ 20,000 million) of its subsidiary, SangSang Stay, Inc. through a capital increase with consideration.

The Company has acquired 8,000,000 shares (₩ 3,214 million) of KT&G Taiwan Corporation during the nine-month period ended September 30, 2021, through establishment of capital investment.

(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 signs 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 the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩ -	₩ 1,414	Fair value
Cosmococ Co., Ltd.	929	-	Fair value
SangSang Stay, Inc.	5,860	3,724	Fair value (2020: value in use)
	₩ 6,789	₩ 5,138	

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.

9. Property, Plant and Equipment

Changes in property, plant and equipment for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 1,139,630	₩ 1,116,325
Acquisition	88,077	113,781
Disposal/obsolescence/impairment loss	(1,578)	(8,536)
Depreciation	(73,046)	(69,141)
Transfer and others	(30,040)	6,583
Ending balance	₩ 1,123,043	₩ 1,159,012

10. Intangible Assets

Changes in intangible assets for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	66,323	₩	58,861
Acquisition		23,133		22,140
Disposal/obsolescence/impairment loss		(362)		(1,477)
Depreciation		(5,094)		(4,335)
Transfers and others		(754)		(14,040)
Ending balance	₩	83,246	₩	61,149

11. Investment Property

Changes in investment property for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	1,101,189	₩	999,105
Acquisition		12,657		77,541
Disposal/obsolescence/impairment loss		(538)		(4,366)
Depreciation		(19,691)		(17,201)
Transfers and others		30,793		1,665
Ending balance	₩	1,124,410	₩	1,056,744

12. Right-of-use Assets

Changes in right-of-use assets for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	29,047	₩	18,545
Acquisition		4,110		16,216
Disposal/obsolescence/impairment loss		(113)		(482)
Depreciation		(7,797)		(7,090)
Ending balance	₩	25,247	₩	27,189

13. Borrowings

Details of short-term borrowings as of September 30, 2021 and December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>		September 30, 2021	December 31, 2020
Nonghyup Bank	₩	489	₩ 633
Hana card		139	184
Total	₩	628	₩ 817

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables, and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.

14. Employee Benefits

(a) Profit or loss recognized related to employee benefits for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Defined benefit plans:				
Current service cost	₩ 7,704	₩ 25,563	₩ 7,923	₩ 23,371
Net interest on net defined benefit liabilities	239	601	181	383
Subtotal	7,943	26,164	8,104	23,754
Defined contribution plan:				
Contributions recognized as expense	1,239	4,037	1,480	4,277
Other long-term employee benefits:				
Current service cost, etc.	4,068	11,195	673	2,018
Termination benefits:				
Voluntary retirements, etc.	-	1,253	-	2,294
Total	₩ 13,250	₩ 42,649	₩ 10,257	₩ 32,343

(b) Net defined benefit liabilities as of September 30, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	September 30, 2021	December 31, 2020
Present value of defined benefit obligation	₩ 404,638	₩ 396,703
Fair value of plan assets	(354,037)	(358,542)
Total	₩ 50,601	₩ 38,161

15. Refund Liabilities and Provisions

(a) Refund liabilities and provisions as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

	September 30, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 4,540	₩ -	₩ 4,464	₩ -
Refund liabilities	5,628	363	1,979	305
Provision for site restoration	1,618	125	8,682	125
Provision for financial guarantee	80	279	-	622
Provision for greenhouse gases	412	-	178	-
Total	₩ 12,278	₩ 767	₩ 15,303	₩ 1,052

(b) Changes in refund liabilities and provisions for the nine-month period ended September 30, 2021, are as follows:

(in millions of Korean won)

	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 1,651	₩ (1,575)	₩ 4,540
Refund liabilities	2,284	6,540	(2,833)	5,991
Provision for site restoration	8,807	67	(7,131)	1,743
Provision for financial guarantee	622	-	(263)	359
Provision for greenhouse gases	178	412	(178)	412
Total	₩ 16,355	₩ 8,670	₩ (11,980)	₩ 13,045

Changes in refund liabilities and provisions for the nine-month period ended September 30, 2020, are as follows:

(in millions of Korean won)

	2020			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩ 2768	₩ (3,839)	₩ 2,623
Refund liabilities	5,023	443	(381)	5,085
Provision for site restoration	6,695	8,204	(4,837)	10,062
Provision for financial guarantee	492	-	(177)	315
Provision for greenhouse gases	-	109	-	109
Total	₩ 15,904	₩ 11,524	₩ (9,234)	₩ 18,194

16. Real Estate Pre-sales Contract

(a) Ongoing real estate pre-sales contracts for the nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)				2021				
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ¹
Suwon hwaseo park prugio (Apartment)	June-2018	August-2021	100.00	₩ 1,212,711	₩ 1,202,826	₩ 1,202,790	₩ 290,805	₩ 523,474
Suwon hwaseo park prugio (Efficiency apartment)	October-2018	August-2021	100.00	112,049	107,809	106,006	25,897	65,210
Suwon hwaseo park prugio (Commercial facility)	January-2021	August-2021	100.00	60,443	22,917	22,917	22,917	5,460
Suwon hwaseo prugio briel	June-2020	September-2023	23.93	791,412	750,995	179,701	117,476	80,630
Total				₩ 2,176,615	₩ 2,084,547	₩ 1,511,414	₩ 457,095	₩ 674,774

¹ Excludes cumulative costs of ₩ 54,652 million for common infrastructure.

(in millions of Korean won)				2020				
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹	Cost (cumulative) ²
Suwon hwaseo park prugio (Apartment)	June-2018	August-2021	61.18	₩ 1,188,501	₩ 1,186,638	₩ 726,005	₩ 291,704	₩ 301,331
Suwon hwaseo park prugio (Efficiency apartment)	October-2018	August-2021	60.58	112,057	106,759	64,671	25,987	38,901
Suwon hwaseo prugio briel	June-2020	September-2023	2.86	791,469	751,051	21,468	21,468	9,563
Total				₩ 2,092,027	₩ 2,044,448	₩ 812,144	₩ 339,159	₩ 349,795

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

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

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(b) Receivables and payables for ongoing real estate pre-sales contracts as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

Construction project	September 30, 2021			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 1,202,790	₩ 1,100,732	₩ 102,058	₩ -
Suwon hwaseo park prugio (Efficiency apartment)	106,006	79,462	26,544	-
Suwon hwaseo park prugio (Commercial facility)	22,917	42,809	-	19,892
Suwon hwaseo prugio briecl	179,701	226,577	-	46,876
Total	₩ 1,511,414	₩ 1,449,580	₩ 128,602	₩ 66,768

(in millions of Korean won)

Construction project	December 31, 2020			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 911,985	₩ 721,871	₩ 190,114	₩ -
Suwon hwaseo park prugio (Efficiency apartment)	80,109	43,926	36,183	-
Suwon hwaseo prugio briecl	62,225	151,136	-	88,911
Total	₩ 1,054,319	₩ 916,933	₩ 226,297	₩ 88,911

(c) No material changes in estimated total contract revenues and total contract costs have occurred during the nine-month period ended September 30, 2021. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until September 30, 2021, and subject to change in the future.

17. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Salaries	₩ 66,147	₩ 200,246	₩ 73,322	₩ 199,374
Retirement and termination benefits	6,325	21,749	6,573	21,522
Employee welfare	12,149	32,260	9,781	25,650
Travel expenses	1,020	2,529	732	2,608
Communication cost	627	2,032	659	2,035
Utilities	3,121	8,411	2,881	7,803
Taxes and dues	(816)	26,030	1,484	24,287
Supplies	388	1,470	681	2,182
Rent	1,509	4,653	1,988	4,717
Depreciation	8,552	26,387	9,647	28,382
Amortization	1,845	5,081	1,372	4,329
Repairs and maintenance	1,915	4,919	1,427	3,997
Vehicles	886	2,614	838	2,507
Insurance	98	1,249	391	883
Commissions	31,242	98,214	38,799	111,177
Freight and custody	3,219	9,106	3,177	8,046
Conferences	391	1,251	523	1,733
Advertising	24,853	69,881	23,380	65,877
Education and training	626	2,427	762	2,583
Prizes and rewards	158	863	572	1,364
Research and development	8,412	27,720	7,007	17,525
Impairment loss (reversal of impairment loss) on trade receivables	(986)	10,983	(1,456)	(11,084)
Total	₩ 171,681	₩ 560,075	₩ 184,540	₩ 527,497

18. Other Income and Expense

(a) Other income for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Gain on foreign currency transaction	₩ 11,250	₩ 22,161	₩ 3,368	₩ 66,222
Gain on foreign currency translation	77,315	131,715	-	1,259
Gain on valuation of derivatives	-	667	6,930	12,082
Reversal of impairment loss on other receivables	622	1,892	793	1,729
Gain on disposal of property, plant and equipment	40	1,708	1,342	1,952
Gain on disposal of investment property	-	30	534	534
Gain on lease contract adjustments	14	43	50	139
Gain on disposal of assets held for sale	-	-	-	2,263
Gain on disposal of investments in joint ventures	-	-	-	2,203
Miscellaneous income	2,499	5,899	216	9,399
Total	₩ 91,740	₩ 164,115	₩ 13,233	₩ 97,782

(b) Other expense for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Loss on foreign currency transaction	₩ 907	₩ 3,592	₩ 6,496	₩ 16,564
Loss on foreign currency translation	-	411	38,352	54,061
Loss on valuation of derivatives	10,969	22,774	-	17,360
Loss on impairment of other receivables	192	797	844	2,534
Loss on disposal of property, plant and equipment	1,087	1,430	640	2,232
Loss on disposal of intangible assets	8	8	99	166
Loss on impairment of intangible assets	159	262	-	-
Loss on disposal of investment properties	65	128	350	493
Loss on disposal of assets held for sale	-	-	-	1
Loss on impairment of investments in subsidiaries	1,028	6,789	-	5,138
Donations	1,496	3,080	680	3,064
Miscellaneous loss	388	622	134	163
Total	₩ 16,299	₩ 39,893	₩ 47,595	₩ 101,776

19. Finance Income and Costs

Finance income and costs for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Three-month	Nine-month	Three-month	Nine-month
Finance income:				
Interest income ¹	₩ 3,017	₩ 9,657	₩ 3,522	₩ 13,548
Dividend income	4,268	19,408	2,342	19,692
Gain on valuation of fair value through profit or loss	4,099	20,595	6,529	37,443
Gain on disposal of long-term deposits in MSA Escrow Fund	-	-	-	29,303
Total finance income	₩ 11,384	₩ 49,660	₩ 12,393	₩ 99,986
Finance costs:				
Interest expense	₩ 704	₩ 1,890	₩ 621	₩ 1,524
Loss on valuation of fair value through profit or loss	4,114	10,220	1,801	7,789
Total finance costs	₩ 4,818	₩ 12,110	₩ 2,422	₩ 9,313
Net finance income	₩ 6,566	₩ 37,550	₩ 9,971	₩ 90,673

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

20. Income Tax Expense

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for the nine-month periods ended September 30, 2021 and 2020, are 26.64% and 26.71%, respectively.

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21. Related Parties

(a) Details of related parties of the Company as of September 30, 2021 and December 31, 2020, are as follows:

(Unit : %)

	Name of entity	Notes	Location	September 30, 2021			December 31, 2020		
				Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation		Korea	100.00	-	100.00	100.00	-	100.00
	Yungjin Pharm. Co., Ltd.		Korea	52.45	-	52.45	52.45	-	52.45
	Tae-a Industry Co., Ltd.		Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		Turkey	99.99	-	99.99	99.99	-	99.99
	Korea Tabacos do Brasil Ltda.		Brazil	99.99	-	99.99	99.99	-	99.99
	KT&G Pars		Iran	99.99	-	99.99	99.99	-	99.99
	KT&G Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
	KT&G USA Corporation		USA	100.00	-	100.00	100.00	-	100.00
	Cosmocos Co., Ltd.		Korea	98.56	-	98.56	98.56	-	98.56
	Renzoluc Pte., Ltd.	¹	Singapore	100.00	-	100.00	100.00	-	100.00
	PT KT&G Indonesia		Indonesia	99.99	-	99.99	99.99	-	99.99
	SangSang Stay, Inc.		Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Global Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
	Gwacheon Sangsang PFV		Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation	²	Taiwan	100.00	-	100.00	-	-	-
	K&I HK Co., Ltd.		HongKong	-	98.56	98.56	-	98.56	98.56
	K&I China Co., Ltd.		China	-	98.56	98.56	-	98.56	98.56
	KGC Yebon Corporation		Korea	-	100.00	100.00	-	100.00	100.00
	KGC Life & Gin Co., Ltd.		Korea	-	100.00	100.00	-	100.00	100.00
	Jilin Hanzheng Ginseng Co., Ltd.		China	-	100.00	100.00	-	100.00	100.00
	Cheong Kwan Jang Taiwan Corporation		Taiwan	-	100.00	100.00	-	100.00	100.00
	Korean Red Ginseng Corp., Inc.		USA	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng (China) Corp.		China	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng Corporation Japan		Japan	-	100.00	100.00	-	100.00	100.00
	PT Trisakti Purwosari Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
	PT Nusantara Indah Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
Associates	Lite Pharm Tech, Inc.	³	Korea	15.30	-	15.30	16.75	-	16.75
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	³	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.	³	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	³	Korea	19.47	-	19.47	19.47	-	19.47
	KORAMCO Amsa Project Financing Vehicle Co., Ltd.	³	Korea	17.84	-	17.84	17.84	-	17.84
	KOCREF Consigned- management REIT No.36	⁴	Korea	21.01	-	21.01	-	-	-
	AndaStation Professional Investment Private REIT No.1		Korea	21.43	-	21.43	-	-	-
	Kiwoom Milestone Private REIT No.16	⁵	Korea	45.50	-	45.50	-	-	-
	Others		Korea						
	KORAMCO Europe Private REIT 3-2 Fund	⁶	Germany	51.35	-	51.35	51.35	-	51.35
Joint ventures	Starfield Suwon, Inc		Korea	50.00	-	50.00	50.00	-	50.00

¹ The percentage of ownership does not include convertible preference shares, with 88.60% including preferred shares as of September 30, 2021.

² During the nine-month period ended September 30, 2021, the Company KT&G Taiwan was included as a subsidiary through establishment of capital investment.

³ It is classified as an investment in associates although the Company's holdings in the invested company is less than 20%. Since it has the right to participate in the invested company's Board of Directors meeting according to the shareholder's agreement, the Company determined that it has significant influence over the invested company.

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⁴It is reclassified as an investment in associates since the Company obtains significant influence through an increase in the shares due to the disproportionate reduction of capital of KOCREF Consigned-management REIT No.36 during the nine-month period ended September 30, 2021.

⁵It is reclassified as an investment in associates since the Company reassessed that it has significant influence over the invested company during the nine-month period ended September 30, 2021.

⁶ It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

(b) The Company carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties for the three-month and nine-month periods ended September 30, 2021 and 2020, are as follows:

① Sales and other income

(in millions of Korean won)

Type	Name of entity	2021		2020	
		Three-month	Nine-month	Three-month	Nine-month
Subsidiaries	Korea Ginseng Corporation	₩ 2,118	₩ 6,488	₩ 2,187	₩ 6,236
	Yungjin Pharm. Co., Ltd.	78	251	125	280
	Tae-A Industry Co., Ltd.	112	350	107	300
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	1,481	7,667	1,353	7,519
	Korea Tabacos do Brasil Ltda.	1	3	1	3
	KT&G Rus L.L.C. ¹	8,533	29,810	9,729	25,285
	KT&G USA Corporation	29,350	118,231	58,402	142,410
	Cosmocore Co., Ltd.	27	114	30	85
	PT KT&G Indonesia ¹	272	785	279	872
	SangSang Stay, Inc.	1,200	3,601	1,395	4,078
	KT&G Global Rus L.L.C.	11	31	7	22
	KGC Yebon Corporation	4	14	4	14
	KGC Life & Gin Co., Ltd.	20	60	25	68
	PT Trisakti Purwosari Makmur ¹	6,478	17,013	12,297	17,837
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	-	18	-	-
	Kiwoom Milestone Private REIT No.16	620	1,212	-	-
Joint venture	KORAMCO Europe Private REIT 3-2 Fund	-	630	-	613
		₩ 50,305	₩ 186,278	₩ 85,941	₩ 205,622

¹ These figures exclude impairment loss for related parties which are ₩ 2,002 million for the nine-month period ended September 30, 2021 (2020: reversal of ₩ 7,678 million).

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② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	2021		2020	
		Three-month	Nine-month	Three-month	Nine-month
Subsidiaries	Korea Ginseng Corporation	₩ 345	₩ 1,007	₩ 400	₩ 1,150
	Yungjin Pharm. Co., Ltd.	7	336	-	3
	Tae-A Industry Co., Ltd.	6,299	18,526	5,840	14,683
	KT&G Rus L.L.C.	-	1	1	1
	Cosmococ Co., Ltd.	245	260	265	584
	SangSang Stay, Inc.	18	118	17	48
	KGC Yebon Corporation	44	135	46	111
	KGC Life & Gin Co., Ltd.	6	8	-	3
Associates	Others	775	1399	-	-
		₩ 7,739	₩ 21,790	₩ 6,569	₩ 16,583

(c) Account balances of receivables and payables with related parties as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	September 30, 2021		December 31, 2020	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 160	₩ 2,049	₩ 543	₩ 1,894
	Yungjin Pharm. Co., Ltd.	49	48	81	58
	Tae-a Industry Co., Ltd.	-	6,782	-	4,408
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	53,196	-	43,349	-
	Korea Tabacos do Brasil Ltda. ²	116	-	113	-
	KT&G Pars ^{1,2}	44,525	-	44,525	-
	KT&G Rus L.L.C. ¹	41,469	-	29,205	-
	KT&G USA Corporation	42,294	296	80,993	272
	Cosmococ Co., Ltd.	4	-	5	-
	SangSang Stay, Inc.	-	5	-	-
	PT KT&G Indonesia ^{1,2}	31,609	-	28,353	-
	KT&G Global Rus L.L.C.	62	-	27	-
	KGC Yebon Corporation	-	9,098	-	9,596
	KGC Life & Gin Co., Ltd.	-	135	-	135
	PT Trisakti Purwosari Makmur ¹	45,332	-	36,444	-
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	18	-	-	-
	Others	-	-	-	32
Joint venture	Starfield Suwon, Inc	677	-	-	-
		₩ 259,511	₩ 18,413	₩ 263,638	₩ 16,395

¹ These figures are gross amounts before the deduction of allowance for doubtful accounts. Allowance for doubtful accounts as of September 30, 2021 and December 31, 2020, were ₩ 79,070 million and ₩ 77,069 million respectively.

² Amount includes loans to related parties.

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(d) Transactions of purchase and sales of property, plant and equipment (including assets held for sale) and right-of use assets with related parties for the nine-month period ended September 30, 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	2021		2020	
		Purchase of property, plant and equipment	Purchase of right-of-use assets	Sale of property, plant and equipment	Sale of assets held for sale
Subsidiaries	Tae-A Industry Co., Ltd.	₩ -	₩ -	₩ -	₩ 432
	KGC Yebon Corporation	246	10,162	-	-
	PT Trisakti Purwosari Makmur	-	-	102	3,610
		₩ 246	₩ 10,162	₩ 102	₩ 4,042

(e) Details of fund transactions with related parties for the nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	2021		2020		Equity refund ¹
		Equity investment	Repayment of lease liabilities	Equity investment	Repayment of lease liabilities	
Subsidiaries	KT&G Taiwan Corporation	₩ 3,214	₩ -	₩ -	₩ -	₩ -
	KGC Yebon Corporation	-	498	-	366	-
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	-	-	5,685	-	-
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.	-	-	5,306	-	-
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	-	-	1,850	-	-
	KORAMCO Amsa Project Financing Vehicle Co., Ltd.	-	-	1,159	-	-
	AndaStation Professional Investment Private	17,764	-	-	-	-
	KB Gimpo Logistics CR REIT Co., Ltd. ¹	-	-	-	-	3,356
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ¹	-	-	-	-	17,838
	Starfield Suwon, Inc. ²	45,000	-	8,000	-	-
		₩ 65,978	₩ 498	₩ 22,000	₩ 366	₩ 21,194

¹ According to the liquidation procedure for these equity investments, the Company was allocated a portion of the remaining assets during the nine-month period ended September 30, 2020.

² For the nine-month period ended September 30, 2021, the Company decided to acquire 900,000 shares (₩ 45,000 million) of Starfield Suwon, Inc. through a capital increase with consideration in accordance with resolution of the Board of Directors on May 12, 2021, of which 300,000 shares (₩ 15,000 million) were acquired in May 2021 and the remaining 600,000 shares (₩ 30,000 million) will be acquired in August 2021.

(f) As of September 30, 2021, KT&G USA Corporation is being provided with a payment guarantee from the Federal Insurance Company up to USD 35,000 thousand in relation to import clearance. The Company has a recourse responsibility up to a limit of USD 125,000 thousand, which includes the amount of payment guarantee executed, to the Federal Insurance Company and others (see Note 23 (c)).

(g) During the year ended December 31, 2020, the Company has renewed a contract which extends the maturity of its loan to PT KT&G Indonesia of USD 22,975 thousand.

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

(i) As of September 30, 2021, the Company has entered into a capital call agreement with KORAMCO Europe Private REIT 3-2 Fund. However, the Company expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

(j) Key management personnel compensation for the nine-month periods ended September 30, 2021 and 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Short-term and long-term employee benefits	₩	17,556	₩	16,157
Retirement benefits		1,806		1,607
Total	₩	19,362	₩	17,764

22. Risk Management and Fair Value of Financial Instruments

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

② Price risk

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

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables, lease liabilities and others. 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 September 30, 2021, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

(b) Credit risk

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

As of September 30, 2021 and December 31, 2020, the carrying amount of a financial asset indicates the maximum exposure to credit risk.

(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 analyses 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.

(d) The carrying amounts of each category of financial instruments as of September 30, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	September 30, 2021		December 31, 2020	
Financial assets:				
Fair value through profit or loss ¹	₩	1,846,558	₩	2,013,316
Fair value through other comprehensive income or loss		217,665		214,394
Derivative assets		-		12,710
Financial assets measured at amortized cost				
Cash and cash equivalents ¹		386,558		225,827
Other financial assets		340,907		339,137
Trade and other receivables		1,092,581		1,170,996
Long-term deposits in MSA Escrow Fund		1,185,650		909,794
Subtotal		3,005,696		2,645,754
Total financial assets	₩	5,069,919	₩	4,886,174
Financial liabilities:				
Derivative liabilities	₩	5,958	₩	57
Financial liabilities measured at amortized cost				
Short-term borrowings		628		817
Trade and other payables		459,388		549,848
Lease liabilities		25,978		28,897
Subtotal		485,994		579,562
Total financial liabilities	₩	491,952	₩	579,619

¹ As of September 30, 2021, money market trust worth ₩ 613,647 million (December 31, 2020: ₩ 850,287 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

The fair value measurements classified by fair value hierarchy as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

		September 30, 2021		
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹	₩ 1,846,558	₩ -	₩ 1,595,043	₩ 251,515
Fair value through other comprehensive income or loss	217,665	183,884	-	33,781
Total financial assets	₩ 2,064,223	₩ 183,884	₩ 1,595,043	₩ 285,296
Derivative liabilities	₩ 5,958	₩ -	₩ 5,958	₩ -

¹ As of September 30, 2021, money market trust worth ₩ 613,647 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(in millions of Korean won)

		December 31, 2020		
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹	₩ 2,013,316	₩ -	₩ 1,782,928	₩ 230,388
Fair value through other comprehensive income or loss	214,394	167,518	-	46,876
Derivative assets	12,710	-	12,710	-
Total financial assets	₩ 2,240,420	₩ 167,518	₩ 1,795,638	₩ 277,264
Derivative liabilities	₩ 57	₩ -	₩ 57	₩ -

¹ As of December 31, 2020, money market trust worth ₩ 850,287 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There was no movement between levels of the fair value hierarchy for the nine-month periods ended September 30, 2021 and 2020.

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As of September 30, 2021 and December 31, 2020, 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 the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	277,264	₩	297,453
Acquisition		55,170		5,823
Disposal		(20,421)		(35,053)
Transfers		(30,100)		1,000
Changes in fair value		3,383		601
Ending balance	₩	285,296	₩	269,824

(f) Net gains or losses by category of financial instruments for the nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)		2021										
	Fair value through profit or loss		Fair value through other comprehensive income or loss		Derivatives		Financial assets measured at amortized cost		Financial liabilities measured at amortized cost		Total	
Profit for the period:												
Interest income	₩	-	₩	-	₩	-	₩	9,657	₩	-	₩	9,657
Dividend income		8,432		9,116		-		-		-		17,548
Gain or loss on valuation		10,375		-		(22,107)		-		-		(11,732)
Gain on disposal		-		-		-		-		43		43
Interest expense		-		-		-		-		(1,890)		(1,890)
Reversal of impairment loss		-		-		-		(9,888)		-		(9,888)
Total	₩	18,807	₩	9,116	₩	(22,107)	₩	(231)	₩	(1,847)	₩	3,738
Other comprehensive income before tax:												
Net change in fair value	₩	-	₩	16,444	₩	-	₩	-	₩	-	₩	16,444

(in millions of Korean won)		2020											
		Fair value through profit or loss		Fair value through other comprehensive income or loss		Derivatives		Financial assets measured at amortized cost		Financial liabilities measured at amortized cost		Total	
Profit for the period:													
Interest income	₩	-	₩	-	₩	-	₩	13,548	₩	-	₩	13,548	
Dividend income		9,672		9,406		-		-		-		19,078	
Gain or loss on valuation		29,654		-		(5,278)		-		-		24,376	
Gain on disposal		-		-		-		29,303		139		29,442	
Interest expense		-		-		-		-		(1,524)		(1,524)	
Impairment loss		-		-		-		10,279		-		10,279	
Total	₩	39,326	₩	9,406	₩	(5,278)	₩	53,130	₩	(1,385)	₩	95,199	
Other comprehensive loss before tax:													
Net change in fair value	₩	-	₩	(53,252)	₩	-	₩	-	₩	-	₩	(53,252)	

23. Contingent Liabilities and Commitments

(a) Litigation cases

As of September 30, 2021, the Company has 5 cases of pending litigations under progress where the Company is the defendant and the litigation value are ₩ 59,697 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of September 30, 2021, on the separate financial statements of the Company.

(b) Commitments with financial institutions

Major commitments of the Company with financial institutions as of September 30, 2021, are as follows:

(in thousands of US dollars)

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank and one other	USD	110,000
Derivatives trading ¹	Hana Bank and five others	USD	374,700

¹ Derivatives are composed of foreign exchange forward contracts and are held for trading as of September 30, 2021.

As of September 30, 2021, the Company has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 90,090 thousand) related to the overseas export of manufactured cigarettes etc.

(c) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Company as of September 30, 2021, are as follows:

(In millions of Korean won or thousands of US dollars)

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,433,167	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	7,932	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	27,820	Escrow deposit guarantee
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves, etc.

As of September 30, 2021, the Company is being provided with a payment guarantee from the Federal Insurance Company up to a limit of USD 35,000 thousand in relation to import clearance for KT&G USA Corporation. The Company has a recourse responsibility up to a limit of USD 125,000 thousand, which includes the amount of payment guarantee executed, to the Federal Insurance Company and others.

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Payment guarantees provided by the Company for other parties as of September 30, 2021, are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon hwaseo park prugio (Apartment)	Shinhan Bank and two others	₩ 139,400	₩ 31,738	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of Suwon hwaseo park prugio (Efficiency apartment)		9,480	4,018	
Buyer of Suwon hwaseo prugio briciel		76,720	25,940	
Total		₩ 225,600	₩ 61,696	

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

Assets pledged as collateral as of September 30, 2021, are as follows:

(in millions of Korean won)	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩ 483,604	₩ 24,592	₩ 27,479	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security and leasehold rights for leasehold deposits
Other financial assets	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge to guarantee real estate development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩ 494,511	₩ 25,189	₩ 38,386		

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Financial assets with restricted use as of September 30, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>		September 30, 2021	December 31, 2020
Other financial assets	Establishment of a pledge to guarantee real estate development	₩ 10,310	₩ 8,540
	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
Total		₩ 110,907	₩ 109,137

(d) Others

Each year, the Company deposits a certain proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the US state government. In accordance with the Escrow Statute, in the event that tobacco consumers suffer adverse damages as a result of illegal activities by the Company, which in turn lead to the medical finances of US state governments being used, the deposit in the MSA Escrow Fund may be incorporated into the state government's medical finances. The unused portion of the fund will be refunded to the Company after 25 years from the date of each deposit. The Company has recognized ₩ 1,185,650 million as of September 30, 2021 (December 31, 2020: ₩ 909,794 million), as long-term deposits in MSA Escrow Fund and consist of T-Notes, T-bills and demand deposits.

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

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

As of September 30, 2021, there is a capital call agreement for overseas real estate funds invested by the Company. However, the Company expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

As of September 30, 2021, the Company is being provided with a commitment from Daewoo Engineering & Construction Co., Ltd. to complete the construction of public housing, efficiency apartments, and sales facilities in the Daeyupyeong District Unit Planning Zone located in 111, Jeongja-dong, Jangan-gu, Suwon-si. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee.

24. Cash Flows

Details of cash generated from operations for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Profit for the period	₩	777,862	₩	776,952
Adjustments:				
Employee welfare		11,953		2,341
Retirement benefits		26,164		23,754
Loss on valuation or obsolescence of inventories		3,911		3,024
Depreciation		100,534		93,432
Amortization		5,094		4,335
Impairment loss (reversal of impairment loss) on trade and other receivables		9,888		(10,279)
Loss on foreign currency translation		411		54,061
Loss on valuation of derivatives		22,774		17,360
Loss on disposal of property, plant and equipment		1,430		2,232
Loss on disposal of intangible assets		8		166
Loss on impairment of intangible assets		262		-
Loss on disposal of investment properties		128		493
Loss on disposal of assets held for sale		-		1
Loss on impairment of investments in subsidiaries		6,789		5,138
Other expenses, etc.		2,796		9,321
Finance cost		12,110		9,313
Income tax expense		282,535		283,090
Gain on foreign currency translation		(131,715)		(1,259)
Gain on valuation of derivatives		(667)		(12,082)
Gain on disposal of property, plant and equipment		(1,708)		(1,952)
Gain on disposal of investment property		(30)		(534)
Gain on disposal of assets held for sale		-		(2,263)
Gain on disposal of investments in joint ventures		-		(2,203)
Other income, etc.		(282)		(46,030)
Finance income		(49,660)		(99,986)
Changes in working capital:				
Decrease (increase) in trade and other receivables		98,672		(465,046)
Increase in derivatives		(3,496)		(8,366)
Decrease in inventories		27,637		14,503
Decrease in accrued tobacco excise and other taxes		37,345		42,041
Increase in advance payments		(24,044)		(23,695)
Decrease (increase) in prepaid expenses		14,455		(8,585)
Increase in trade and other payables		71,886		57,900
Increase (decrease) in advance receipts		(24,486)		10,236
Increase in tobacco excise and other taxes payable		50,503		635,775
Decrease in provision for site restoration		(7,132)		(4,837)
Increase (decrease) in net defined benefit liabilities		(667)		432
Cash generated from operations	₩	1,321,260	₩	1,358,783

25. Events After the Reporting Period

The Company decided to acquire 4,100,000 treasury shares for the purpose of increasing shareholder value through the Board of Directors on November 4, 2021.