

**KT&G Corporation and Subsidiaries**  
**Consolidated Interim Financial Statements**  
**September 30, 2021**

**KT&G Corporation and Subsidiaries**  
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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 consolidated interim financial statements of KT&G Corporation and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at September 30, 2021, and the related consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2021, and consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 the following issues to the consolidated interim financial statements.

#### ***Impact of Coronavirus disease 2019***

As discussed in Note 3 to the consolidated interim financial statements, it describes uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Group's productivity and operating environments.

#### ***Restatement of prior period financial statements***

As discussed in Note 24 to the consolidated interim financial statements, the Group restated and disclosed the financial statement as at and for the year ended December 31, 2019 and prior period's financial statements in relation to the scope of consolidation and others. In this regard, the consolidated interim financial statements for the nine-month period ended September 30, 2020, presented herein for comparative purposes, were also restated to reflect these adjustments.

### ***Other Matters***

The consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2020, and consolidated 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 consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period ended September 30, 2020 on which another auditor expressed an unqualified opinion do not reflect adjustments described in Note 24. The comparative consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period ended September 30, 2020, reflect the adjustments. We were not engaged to audit or review or apply any procedures to the consolidated interim statement of comprehensive income, changes in equity and cash flows for the nine-month period ended September 30, 2020 including the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated interim statement of comprehensive income for the nine-month period ended September 30, 2020 taken as a whole.

Meanwhile, the consolidated statement of financial position of the Group as at December 31, 2020, and the related consolidated 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 consolidated 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 consolidated 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 and Subsidiaries**  
**Consolidated Interim Statements of Financial Position**  
**September 30, 2021 and December 31, 2020**



(in Korean won)

	Notes	September 30, 2021	December 31, 2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	21	₩ 1,360,906,046,176	₩ 1,253,611,491,485
Current other financial assets	21,22	424,841,727,300	407,735,098,979
Current financial assets at fair value through profit or loss	21	963,995,609,358	914,423,857,131
Trade and other receivables	5,15,20,21	1,253,706,848,355	1,215,049,112,141
Current financial assets measured at fair value through other comprehensive income or loss	21	31,400,000,000	-
Derivative assets	21,22	-	12,710,170,259
Inventories	6	2,294,544,125,332	2,535,032,331,643
Refund assets and others		3,722,786,276	1,055,336,156
Accrued tobacco excise and other taxes		254,454,909,184	271,576,536,047
Advance payments	22	125,995,496,374	96,525,759,106
Prepaid expenses		60,833,442,165	39,982,310,895
Assets held for sale	4	2,000,000,000	2,680,613,295
<b>Total current assets</b>		<b>6,776,400,990,520</b>	<b>6,750,382,617,137</b>
<b>Non-current assets</b>			
Long-term other financial assets	21,22	11,200,813,072	10,129,160,820
Long-term deposits in MSA Escrow Fund	21,22	1,185,649,807,304	909,793,848,086
Long-term financial assets measured at fair value through profit or loss	21,22	274,730,892,880	253,562,005,029
Long-term trade and other receivables	5,20,21	93,398,847,426	97,408,876,060
Long-term financial assets measured at fair value through other comprehensive income or loss	21,22	216,393,756,590	239,539,297,251
Investments in associates and joint ventures	4,7,20,22	222,740,580,946	132,186,631,034
Property, plant and equipment	8,22	1,726,418,433,485	1,718,412,218,663
Intangible assets	9	150,729,191,752	134,083,879,591
Investment properties	10,22	1,061,183,795,123	1,030,179,338,792
Right-of-use assets	11	44,924,292,120	49,088,378,254
Long-term advance payments	22	125,213,361,548	83,059,283,710
Long-term prepaid expenses		8,744,786,625	9,578,669,254
Deferred income tax assets	19	51,575,269,828	50,933,089,250
Net defined benefit assets		-	45,859,229
<b>Total non-current assets</b>		<b>5,172,903,828,699</b>	<b>4,718,000,535,023</b>
<b>Total assets</b>		<b>₩ 11,949,304,819,219</b>	<b>₩ 11,468,383,152,160</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	12,21,22	₩ 19,969,621,484	₩ 17,308,208,182
Current portion of long-term borrowings	12,21,22	49,473,369,938	37,506,480,000
Trade and other payables	20,21,22	985,684,570,974	969,201,720,579
Current lease liabilities	21	18,025,203,522	19,879,792,617
Derivative liabilities	21,22	5,958,188,847	57,106,354
Advance receipts	15	81,411,388,307	100,836,686,048
Current refund liabilities and provisions	14,22	25,961,174,994	27,508,655,465
Current income tax liabilities	19	156,807,319,910	234,566,275,361
Tobacco excise and other taxes payables		746,292,037,012	584,576,087,074
Liabilities held for sale		-	51,000,609
<b>Total current liabilities</b>		<b>2,089,582,874,988</b>	<b>1,991,492,012,289</b>
<b>Non-current liabilities</b>			
Long-term borrowings	12,21,22	53,395,603,962	53,492,407,968
Long-term trade and other payables	20,21,22	58,634,552,803	49,479,702,490
Long-term lease liabilities	21	22,141,356,797	25,828,963,710
Long-term advance receipts	15	6,990,449,711	8,193,185,016
Net defined benefit liabilities	13,20	134,000,261,602	112,959,451,518
Long-term refund liabilities and provisions	14,22	3,556,131,553	3,192,103,226
Deferred income tax liabilities	19	146,533,400,166	130,558,400,937
Non-controlling interests liabilities	21	9,579,902,743	1,615,268,761
<b>Total non-current liabilities</b>		<b>434,831,659,337</b>	<b>385,319,483,626</b>
<b>Total liabilities</b>		<b>2,524,414,534,325</b>	<b>2,376,811,495,915</b>

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

<i>(in Korean won)</i>	Notes	September 30, 2021	December 31, 2020
<b>Equity</b>			
Share capital		954,959,485,000	954,959,485,000
Other capital surplus		4,497,785,722	4,497,785,722
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		6,486,952,912,969	5,977,643,096,280
Retained earnings		<u>1,931,306,922,637</u>	<u>2,102,474,813,562</u>
<b>Equity attributable to owners of the Parent Company</b>		<u>9,374,993,066,655</u>	<u>9,036,851,140,891</u>
<b>Non-controlling interest</b>		<u>49,897,218,239</u>	<u>54,720,515,354</u>
<b>Total equity</b>		<u>9,424,890,284,894</u>	<u>9,091,571,656,245</u>
<b>Total liabilities and equity</b>	₩	<u>11,949,304,819,219</u>	₩ <u>11,468,383,152,160</u>

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

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



(in Korean won)	Notes	Period Ended September 30			
		2021		2020	
		(Unreviewed)		(Unreviewed)	
		Three months	Nine months	Three months	Nine months
<b>Sales</b>	4,20	₩ 1,568,447,860,503	₩ 4,178,801,544,460	₩ 1,463,411,667,167	₩ 3,960,664,157,820
<b>Cost of sales</b>		(745,156,489,190)	(1,925,114,366,477)	(635,290,889,385)	(1,694,330,705,218)
<b>Gross profit</b>		823,291,371,313	2,253,687,177,983	828,120,777,782	2,266,333,452,602
Selling, general and administrative expense	16,20	(399,391,248,963)	(1,181,968,229,192)	(394,079,696,073)	(1,123,761,491,718)
<b>Operating profit</b>	4	423,900,122,350	1,071,718,948,791	434,041,081,709	1,142,571,960,884
Other income	17,20,21	95,772,672,655	174,437,705,118	12,188,964,491	105,520,449,908
Other expense	17,20,21	(17,551,004,955)	(48,739,585,216)	(60,381,879,861)	(131,095,187,700)
Finance income	18,21	10,822,507,042	48,680,846,289	13,017,057,685	102,603,586,484
Finance costs	18,21	(11,094,207,973)	(21,662,267,880)	(3,883,265,866)	(12,883,135,668)
Share of net profit (loss) of associates and joint ventures	7	(140,794,318)	(1,052,825,572)	(138,895,099)	4,466,569,519
<b>Profit before income tax</b>		501,709,294,801	1,223,382,821,530	394,843,063,059	1,211,184,243,427
Income tax expense	19	(142,130,988,783)	(344,800,387,154)	(117,132,155,759)	(346,876,443,303)
<b>Profit for the period</b>		₩ 359,578,306,018	₩ 878,582,434,376	₩ 277,710,907,300	₩ 864,307,800,124
<b>Other comprehensive income (loss) for the period after income tax</b>		₩ 10,510,265,959	₩ 50,319,824,673	₩ 3,216,870,530	₩ (43,518,065,977)
Items that will not be reclassified to profit or loss		(6,024,143,556)	24,701,096,935	15,447,169,899	(33,197,418,417)
Re-measurements of net defined benefit liabilities		(113,579,094)	9,381,177,447	334,586,407	(2,812,680,941)
Gain (loss) on valuation of fair value through other comprehensive income or loss	21	(5,907,405,360)	15,320,292,538	15,114,254,200	(30,349,887,723)
Capital changes in equity method	7	(3,159,102)	(373,050)	(1,670,708)	(34,849,753)
Items that will be reclassified to profit or loss		16,534,409,515	25,618,727,738	(12,230,299,369)	(10,320,647,560)
Exchange differences on translating foreign operations		16,534,409,515	25,617,439,134	(12,230,090,855)	(10,569,679,971)
Capital changes in equity method	7	-	1,288,604	(208,514)	249,032,411
<b>Total comprehensive income for the period</b>		₩ 370,088,571,977	₩ 928,902,259,049	₩ 280,927,777,830	₩ 820,789,734,147
<b>Profit for the period is attributable to:</b>					
Owners of the Parent Company		₩ 361,365,752,050	₩ 883,288,463,678	₩ 277,844,521,055	₩ 863,219,347,504
Non-controlling interests		(1,787,446,032)	(4,706,029,302)	(133,613,755)	1,088,452,620
<b>Total</b>		₩ 359,578,306,018	₩ 878,582,434,376	₩ 277,710,907,300	₩ 864,307,800,124
<b>Total comprehensive income for the period attributable to:</b>					
Owners of the Parent Company		₩ 371,878,836,952	₩ 933,725,556,164	₩ 281,056,012,455	₩ 819,683,750,207
Non-controlling interests		(1,790,264,975)	(4,823,297,115)	(128,234,625)	1,105,983,940
<b>Total</b>		₩ 370,088,571,977	₩ 928,902,259,049	₩ 280,927,777,830	₩ 820,789,734,147
<b>Basic earnings per share</b>					
Basic and diluted		₩ 2,912	₩ 7,119	₩ 2,313	₩ 6,836

The above consolidated interim statements of comprehensive income should be read in conjunction with the accompanying notes.



**KT&G Corporation and Subsidiaries**  
**Consolidated 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	Owners of the parent	Non-controlling Interest	Total Equity
<b>Balance at January 1, 2020 (Unreviewed)</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 5,680,008,923,230	₩ 1,834,645,992,314	₩ 8,684,216,790,713	₩ 55,368,697,571	₩ 8,739,585,488,284
<b>Total comprehensive income (loss) for the period</b>									
Profit for the period	-	-	-	-	-	863,219,347,504	863,219,347,504	1,088,452,620	864,307,800,124
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(2,830,510,289)	(2,830,510,289)	17,829,348	(2,812,680,941)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(30,349,887,723)	-	(30,349,887,723)	-	(30,349,887,723)
Exchange differences on translating foreign operations	-	-	-	-	(10,569,381,943)	-	(10,569,381,943)	(298,028)	(10,569,679,971)
Capital changes in equity method	-	-	-	-	214,182,658	-	214,182,658	-	214,182,658
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(40,705,087,008)	860,388,837,215	819,683,750,207	1,105,983,940	820,789,734,147
<b>Transactions with owners of the Parent Company:</b>									
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)	-	(556,951,661,200)
Acquisition of treasury shares	-	-	(212,828,644,120)	-	-	-	(212,828,644,120)	-	(212,828,644,120)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-	-	-
	-	-	(212,828,644,120)	-	331,300,012,585	(888,251,673,785)	(769,780,305,320)	-	(769,780,305,320)
<b>Balance at September 30, 2020 (Unreviewed)</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,970,603,848,807	₩ 1,806,783,155,744	₩ 8,734,120,235,600	₩ 56,474,681,511	₩ 8,790,594,917,111
<b>Balance at January 1, 2021</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,977,643,096,280	₩ 2,102,474,813,562	₩ 9,036,851,140,891	₩ 54,720,515,354	₩ 9,091,571,656,245
<b>Total comprehensive income (loss) for the period</b>									
Profit (loss) for the period	-	-	-	-	-	883,288,463,678	883,288,463,678	(4,706,029,302)	878,582,434,376
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	9,379,251,968	9,379,251,968	1,925,479	9,381,177,447
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	15,320,292,538	-	15,320,292,538	-	15,320,292,538
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)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	25,736,632,426	-	25,736,632,426	(119,193,292)	25,617,439,134
Capital changes in equity method	-	-	-	-	915,554	-	915,554	-	915,554
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	44,672,009,971	5,765,082,515	50,437,092,486	(117,267,813)	50,319,824,673
<b>Transactions with owners of the Parent Company:</b>									
Dividends	-	-	-	-	-	(595,583,630,400)	(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)	-	(595,583,630,400)
<b>Balance at September 30, 2021</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,486,952,912,969	₩ 1,931,306,922,637	₩ 9,374,993,066,655	₩ 49,897,218,239	₩ 9,424,890,284,894

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

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



	Notes	2021	2020 (Unreviewed)
<i>(in Korean won)</i>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	₩ 23	1,203,893,510,104	₩ 1,207,950,126,997
Income taxes paid		1,612,648,324,327	1,535,132,278,222
		(408,754,814,223)	(327,182,151,225)
<b>Cash flows from investing activities</b>		(477,091,114,494)	(256,068,572,818)
Interest received		7,992,754,049	16,944,794,458
Dividends received		20,984,708,832	21,146,812,677
Decrease in other financial assets		216,722,943,288	457,840,300,000
Decrease in current financial assets measured at fair value through profit or loss		157,635,467	95,729,896,389
Decrease in long-term financial assets measured at fair value through profit or loss		20,922,179,434	32,947,572,487
Decrease in financial assets at fair value through other comprehensive income or loss		72,899,804	2,134,000,000
Decrease in long-term deposits in MSA Escrow Fund		443,725,928	30,190,725,542
Disposal of property, plant and equipment		5,553,347,596	8,656,508,721
Disposal of intangible assets		768,000	2,620,438,081
Disposal of investment properties		440,034,128	4,407,486,213
Disposal of assets held for sale		634,340,249	-
Disposal of investments in associates and joint ventures		-	21,193,630,212
Collection of loans		14,532,198,968	10,632,537,668
Collection of guarantee deposits		3,444,940,622	585,868,012
Collection of finance lease receivables		90,135,735	416,505,581
Increase in other financial assets		(234,867,328,826)	(491,979,456,096)
Increase in financial assets measured at fair value through profit or loss		(41,757,468,151)	(6,000,000,000)
Increase in long-term financial assets measured at fair value through profit or loss		(54,215,758,761)	(7,622,500,000)
Increase in financial assets at fair value through other comprehensive income or loss		(2,499,988,606)	-
Increase in long-term deposits in MSA Escrow Fund		(184,736,600,615)	(166,094,254,862)
Acquisition of property, plant and equipment		(125,999,927,613)	(152,109,855,178)
Acquisition of intangible assets		(26,208,547,154)	(26,987,072,835)
Acquisition of investment properties		(15,516,665,290)	(77,540,719,255)
Acquisition of right-of-use assets		(99,491,112)	(363,629,731)
Acquisition of investments in associates and joint ventures		(62,764,091,620)	(22,000,000,000)
Increase in loans		(20,018,033,014)	(10,282,367,785)
Increase in guarantee deposits		(399,825,832)	(535,793,117)
<b>Cash flows from financing activities</b>		(599,566,751,693)	(779,526,390,507)
Dividends paid		(595,583,630,400)	(556,951,661,200)
Interest paid		(2,646,009,839)	(1,610,690,559)
Repayment of lease liabilities		(16,496,098,614)	(13,796,029,428)
Repayment of borrowings		(73,915,429,793)	(127,394,268,223)
Acquisition of treasury shares		-	(212,828,644,120)
Capital increase with consideration		-	824,000
Increase in borrowings		89,074,416,953	133,054,079,023
<b>Net increase in cash and cash equivalents</b>		127,235,643,917	172,355,163,672
<b>Cash and cash equivalents at the beginning of the period</b>		1,253,611,491,485	891,306,145,983
Effect of exchange rate fluctuation on cash and cash equivalents		(19,941,089,226)	549,804,716
<b>Cash and cash equivalents at the end of the period</b>	₩	1,360,906,046,176	₩ 1,064,211,114,371

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

## **1. Reporting Entity**

### **1.1 Overview of the Parent Company**

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 2021, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

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The Parent 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
	<b>137,292,497</b>	<b>100.00</b>

## 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of September 30, 2021, are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) <sup>1</sup>	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	Sep.30.2021	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	Sep.30.2021	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	Sep.30.2021	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	Sep.30.2021	Turkey
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	Sep.30.2021	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	Sep.30.2021	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	Sep.30.2021	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	Sep.30.2021	USA
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	Sep.30.2021	Korea
	Renzoluc Pte., Ltd. <sup>2</sup>	Holding company	100.00	Sep.30.2021	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	Sep.30.2021	Indonesia
	SangSang Stay Inc.	Hotel	100.00	Sep.30.2021	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	Sep.30.2021	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00	Sep.30.2021	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	Sep.30.2021	Taiwan
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	Sep.30.2021	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	Sep.30.2021	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	Sep.30.2021	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	Sep.30.2021	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	Sep.30.2021	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	Sep.30.2021	China
	Korea Ginseng Corporation Japan	Selling ginseng, etc.	100.00	Sep.30.2021	Japan
Cosmocos Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics, etc.	98.56	Sep.30.2021	HongKong
	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	Sep.30.2021	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	Sep.30.2021	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.99	Sep.30.2021	Indonesia

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

<sup>2</sup> The percentage of ownership, shown above, does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of September 30, 2021.

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

The Parent 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 and The Parent Company has acquired 250,000 shares (₩ 287 million) of K&I HK Co., Ltd. during the nine-month period ended September 30, 2021, through a capital increase with consideration.

## **2. Significant Accounting Policies**

### **2.1 Basis of Preparation**

The Group 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 consolidated interim financial statements have been restructured and translated into English from the Korean language financial statements.

The Group's consolidated 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 consolidated 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 Group**

*(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 Group has changed the accounting policy for all the rent concessions that meet the requirements. The Group has adopted the accounting policy, retrospectively, as permitted under the specific transitional provisions in the standard. There was no cumulative impact of retrospective application and The Group did not restate comparatives for the 2020 reporting period. The Group recognized ₩ 313 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 consolidated financial statements.

**2.1.2 New and amended standards and interpretations not yet adopted by the Group**

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 Group.

*(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 Group is in review for the impact of these amendments on the consolidated financial statements.

## **2.2 Significant Accounting Policies**

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated 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 Group 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 consolidated interim financial statements are the same as those applied to the consolidated 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 Group, and the impact is expected to be continued to the consolidated annual financial statements in 2021.

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



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**4. Operating Segment**

(a) The Group's operating segments are summarized as follows:

<b>Operating Segments</b>	<b>Principal operation</b>
Tobacco	Manufacturing and selling tobaccos
Ginseng	Manufacturing and selling red ginseng, etc.
Real estate	Selling and renting real estate
Others	Manufacturing and selling pharmaceuticals, cosmetics and others

(b) Segment information on sales and operating profit for the nine-month periods ended September 30, 2021 and 2020, are as follows:

	<b>2021</b>						
	<b>Tobacco</b>	<b>Ginseng</b>	<b>Real estate</b>	<b>Others</b>	<b>Segment total</b>	<b>Adjustments</b>	<b>Consolidated</b>
Total segment sales	₩ 2,586,803	₩ 1,219,414	₩ 592,459	₩ 197,434	₩ 4,596,110	₩ (417,308)	₩ 4,178,802
Intersegment sales	(262,982)	(108,175)	(39,852)	(6,299)	(417,308)	417,308	-
External sales	2,323,821	1,111,239	552,607	191,135	4,178,802	-	4,178,802
Operating profit	727,342	136,169	232,726	(16,601)	1,079,636	(7,917)	1,071,719

  

	<b>2020</b>						
	<b>Tobacco</b>	<b>Ginseng</b>	<b>Real estate</b>	<b>Others</b>	<b>Segment total</b>	<b>Adjustments</b>	<b>Consolidated</b>
Total segment sales	₩ 2,486,499	₩ 1,241,812	₩ 395,065	₩ 213,310	₩ 4,336,686	₩ (376,022)	₩ 3,960,664
Intersegment sales	(274,220)	(88,365)	(11,154)	(2,283)	(376,022)	376,022	-
External sales	2,212,279	1,153,447	383,911	211,027	3,960,664	-	3,960,664
Operating profit	823,572	176,216	162,961	(1,728)	1,161,021	(18,449)	1,142,572

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

(in millions of Korean won)

		2021		2020	
		Three months	Nine months	Three months	Nine months
Revenue recognized at a point in time:					
Tobacco	Wholesale, retail	₩ 823,690	₩ 2,287,028	₩ 820,054	₩ 2,165,383
	Direct sales	13,824	36,793	16,150	46,896
Ginseng	Wholesale, retail	232,378	569,397	228,849	591,353
	Direct sales	208,290	541,842	218,748	562,094
Others	Wholesale, retail	65,556	182,570	66,625	204,140
	Direct sales	2,762	8,565	2,397	6,887
Subtotal		1,346,500	3,626,195	1,352,823	3,576,753
Revenue recognized over time:					
Real estate	Sales and rental	221,948	552,607	110,589	383,911
Total		₩ 1,568,448	₩ 4,178,802	₩ 1,463,412	₩ 3,960,664

(d) Segment information on assets and liabilities as of September 30, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

		September 30, 2021					
		Tobacco	Ginseng	Real estate	Others	Segment total	Consolidated
Assets:							
Segment assets	₩ 5,464,013	₩ 2,198,932	₩ 1,386,670	₩ 247,963	₩ 9,297,578	₩ (2,222,866)	₩ 7,074,712
Investments in associates and joint ventures	-	-	218,551	4,189	222,740	-	222,740
Assets held for sale	2,000	-	-	-	2,000	-	2,000
Subtotal	5,466,013	2,198,932	1,605,221	252,152	9,522,318	(2,222,866)	7,299,452
Common assets							4,649,853
Total assets							₩ 11,949,305
Acquisition of non-current assets	139,535	150,116	2,886	15,854	308,391	(137,547)	170,844
Liabilities:							
Segment liabilities	2,166,627	234,530	116,194	140,374	2,657,725	(600,275)	2,057,450
Common liabilities							466,965
Total liabilities							₩ 2,524,415

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(in millions of Korean won)

	December 31, 2020						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 5,298,576	₩ 2,056,551	₩ 1,469,929	₩ 260,432	₩ 9,085,488	₩ (1,967,586)	₩ 7,117,902
Investments in associates and joint ventures	-	-	128,476	3,711	132,187	-	132,187
Assets held for sale	2,000	681	-	-	2,681	-	2,681
Subtotal	5,300,576	2,057,232	1,598,405	264,143	9,220,356	(1,967,586)	7,252,770
Common assets							4,215,613
Total assets							₩ 11,468,383
Acquisition of non-current assets	330,350	47,615		8,853	386,818	(22,032)	364,786
Liabilities:							
Segment liabilities	2,001,388	181,474	1,283	142,008	2,326,153	(463,472)	1,862,681
Liabilities held for sale	-	51	-	-	51	-	51
Subtotal	2,001,388	181,525	1,283	142,008	2,326,204	(463,472)	1,862,732
Common liabilities							514,079
Total liabilities							₩ 2,376,811

Cash and cash equivalents, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income or loss, deferred tax assets and others are included in the common assets and borrowings and deferred tax liabilities and others are included in the common liabilities.

(e) Geographical information determined by customer's location for the nine-month periods ended September 30, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			2020		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 3,133,762	₩ 1,045,040	₩ 4,178,802	₩ 2,978,544	₩ 982,120	₩ 3,960,664
Non-current assets	2,847,921	135,335	2,983,256	2,771,391	131,563	2,902,954

The above overseas category was not separately classified by region because sales and non-current assets attributed to a particular country are immaterial.

(f) There is no single external customer who contributes more than 10% of the Group's consolidated total revenue.

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**5. Trade and Other Receivables**

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

*(in millions of Korean won)*

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade receivables	₩ 1,112,271	₩ -	₩ 1,115,246	₩ -
Loans	16,002	58,855	14,634	54,598
Other receivables	73,957	3,762	38,921	3,357
Guarantee deposits	49,751	30,587	43,363	39,349
Accrued income	1,726	195	2,406	105
Finance lease receivables	-	-	479	-
<b>Total</b>	<b>₩ 1,253,707</b>	<b>₩ 93,399</b>	<b>₩ 1,215,049</b>	<b>₩ 97,409</b>

(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:

*(in millions of Korean won)*

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Total carrying amount	₩ 1,349,267	₩ 93,815	₩ 1,302,636	₩ 97,598
Allowances:				
Trade receivables	(94,585)	-	(86,062)	-
Other receivables	(975)	(416)	(1,525)	(189)
Total allowances	(95,560)	(416)	(87,587)	(189)
<b>Net trade and other receivables</b>	<b>₩ 1,253,707</b>	<b>₩ 93,399</b>	<b>₩ 1,215,049</b>	<b>₩ 97,409</b>

(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:

*(in millions of Korean won)*

	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 87,776	₩ 121,191
Impairment loss (reversal)	7,264	(20,772)
Write off	(392)	(213)
Net exchange difference	1,328	(3,445)
<b>Ending balance</b>	<b>₩ 95,976</b>	<b>₩ 96,761</b>

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

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**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	₩ 74,889	₩ (2,687)	₩ 72,202	₩ 44,192	₩ (6,513)	₩ 37,679
Finished goods	791,163	(16,365)	774,798	849,715	(14,604)	835,111
Work in progress	528,950	(1,313)	527,637	651,435	(1,190)	650,245
Raw materials	779,085	(1,814)	777,271	838,689	(2,002)	836,687
Supplies	49,700	-	49,700	42,764	-	42,764
By-products	6,331	-	6,331	7,168	-	7,168
Buildings under construction	4,175	-	4,175	15,656	-	15,656
Completed buildings	21,049	-	21,049	1,490	-	1,490
Sites for construction of real estate	28,748	-	28,748	58,181	-	58,181
Goods in transit	32,633	-	32,633	50,051	-	50,051
Total	₩ 2,316,723	₩ (22,179)	₩ 2,294,544	₩ 2,559,341	₩ (24,309)	₩ 2,535,032

(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 months	Nine months	Three months	Nine months
Cost of sales:				
Loss on valuation of inventories (reversal)	₩ 66	₩ (1,874)	₩ (4,320)	₩ 3,354
Loss on obsolescence of inventories	3,341	7,253	8,715	10,998
Other expense:				
Loss on obsolescence of inventories	169	169	310	517
Total	₩ 3,576	₩ 5,548	₩ 4,705	₩ 14,869

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**7. Investments in Associates and Joint Ventures**

Changes in the carrying amount of investment in associates and joint ventures for the nine-month periods ended September 30, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Beginning balance	₩	132,187	₩	49,393
Acquisition		93,466		22,000
Disposal		-		(22,194)
Equity method gains and losses		(1,053)		4,467
Dividends		(1,860)		(613)
Changes in equity method capital		1		295
Ending balance	₩	222,741	₩	53,348

**8. 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>	<b>2021</b>		<b>2020</b>	
Beginning balance	₩	1,718,412	₩	1,753,739
Acquisition		116,664		150,095
Disposal/obsolescence/impairment loss		(1,851)		(7,944)
Depreciation		(117,778)		(114,497)
Transfers		10,971		(5,861)
Ending balance	₩	1,726,418	₩	1,775,532

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**9. 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>		<b>2021</b>		<b>2020</b>
Beginning balance	₩	134,084	₩	129,624
Acquisition		26,183		27,574
Disposal/obsolescence/impairment loss		(406)		(2,854)
Amortization		(10,834)		(10,185)
Transfers		1,702		(14,029)
Ending balance	₩	150,729	₩	130,130

**10. 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>		<b>2021</b>		<b>2020</b>
Beginning balance	₩	1,030,179	₩	885,325
Acquisition		15,600		77,541
Disposal/obsolescence/impairment loss		(538)		(4,367)
Depreciation		(16,375)		(13,968)
Transfers		32,318		6,445
Ending balance	₩	1,061,184	₩	950,976

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**11. 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>		<b>2021</b>		<b>2020</b>
Beginning balance	₩	49,088	₩	45,484
Acquisition		12,397		19,796
Disposal		(354)		(686)
Depreciation		(17,499)		(17,359)
Transfers		1,292		(919)
Ending balance	₩	44,924	₩	46,316

**12. Borrowings**

(a) Short-term borrowings as of September 30, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Borrowings		FTP+0.994~1.104	₩ 1,000	₩ 500
	Hana Bank	Bank Debenture (6 months)+1.62~2.308	3,000	10,000
	Hana Bank Bahrain branch	3M LIBOR+1.1	5,342	5,991
	Shinhan Bank	Industrial Financial Debenture (1 year)+1.47	10,000	-
	Subtotal		19,342	16,491
Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank	-	489	633
	Hana Card	-	139	184
	Subtotal		628	817
	Total		₩ 19,970	₩ 17,308

<sup>1</sup>The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.



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(b) Current portion of long-term borrowings and long-term borrowings as of September 30, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Other financial loan for working capital	NH Nonghyup Bank	2022.05.30~ 2026.06.30	-	₩ 63,380	₩ 49,700
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03~1.58	4,334	5,958
Redeemable convertible preferred shares <sup>1,2</sup>				35,155	35,340
	Total			102,869	90,998
Consolidated statements of financial position:					
Current <sup>2</sup>				49,473	37,506
Non-current				53,396	53,492
	Total			₩ 102,869	₩ 90,998

<sup>1</sup>Redeemable convertible preferred shares as of September 30, 2021 and December 31, 2020, are as follows:

Issuing company	Renzoluc Pte, Ltd.
Issue date	September 14, 2012
Issued value	₩ 35,155 million
Carrying amount	₩ 35,155 million
Maturity	The convertible instrument will mature 10 years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund ("PEF").
Convertible rights to ordinary share	The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date.
Repayment claim right	The right to request for liquidation or claim for a stake purchase 270 days prior to the expiration of the PEF. As of September 30, 2021, PEF made a written request to KT&G for dissolution and liquidation of Renzoluc Pte., Ltd or purchase of shares.

<sup>2</sup>As of September 30, 2021, the borrowings, in which the holders of the convertible preferred shares are able to request for a stake purchase within a year, are classified as current portion of long-term borrowings.

(c) As discussed in Note 22-(c) to the consolidated interim financial statements, the Group is providing collateral for the above borrowings.

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**13. 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:

*(in millions of Korean won)*

	2021		2020	
	Three months	Nine months	Three months	Nine months
Defined benefit plans:				
Current service cost	₩ 13,110	₩ 41,670	₩ 13,248	₩ 39,434
Net interest on net defined benefit liabilities	573	1,602	558	1,531
Subtotal	13,683	43,272	13,806	40,965
Defined contribution plan:				
Contributions recognized as expense	1,666	5,302	1,826	5,396
Other long-term employee benefits:				
Current service cost, etc.	9,019	16,778	981	2,826
Termination benefits:				
Voluntary retirements, etc.	92	1,827	-	2,589
Total	₩ 24,460	₩ 67,179	₩ 16,613	₩ 51,776

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

*(in millions of Korean won)*

	September 30, 2021	December 31, 2020
Present value of defined benefit obligation	₩ 620,430	₩ 600,984
Fair value of plan assets	(486,430)	(488,070)
Total	₩ 134,000	₩ 112,914

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**14. 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	14,292	2,332	9,796	1,447
Provision for site restoration	5,882	919	12,354	1,122
Provision for financial guarantee	118	304	-	622
Provision for greenhouse gases	412	-	178	-
Provision for others	717	1	717	1
Total	₩ 25,961	₩ 3,556	₩ 27,509	₩ 3,192

(b) Changes in refund liabilities and provisions for the nine-month periods ended September 30, 2021 and 2020, 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	11,243	11,887	(6,506)	16,624
Provision for site restoration	13,476	611	(7,286)	6,801
Provision for financial guarantee	622	77	(277)	422
Provision for greenhouse gases	178	412	(178)	412
Provision for others	718	-	-	718
Total	₩ 30,701	₩ 14,638	₩ (15,822)	₩ 29,517

*(in millions of Korean won)*

	2020			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩ 2,768	₩ (3,839)	₩ 2,623
Refund liabilities	13,374	5,609	(3,960)	15,023
Provision for site restoration	10,693	8,932	(5,012)	14,613
Provision for financial guarantee	492	-	(177)	315
Provision for greenhouse gases	-	109	-	109
Provision for others	1,504	-	(818)	686
Total	₩ 29,757	₩ 17,418	₩ (13,806)	₩ 33,369

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**15. 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)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2021				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>1</sup>
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 bricel	June 2020	September 2023	23.93	791,412	750,995	179,701	117,476	80,630
Gwacheon sangsang Xi tower B	January 2021	May 2023	19.79	239,568	239,568	47,144	47,144	26,612
Total				₩ 2,416,183	₩ 2,324,115	₩ 1,558,558	₩ 504,239	₩ 701,386

<sup>1</sup> Excludes cumulative costs of ₩ 54,652 million for common infrastructure.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2020				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>1</sup>	Cost (cumulative) <sup>2</sup>
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	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 bricel	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

<sup>1</sup> 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).

<sup>2</sup> 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:

<i>(in millions of Korean won)</i>		September 30, 2021			
		Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Construction project					
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 briel		179,701	226,577	-	46,876
Gwacheon sangsang Xi tower B		47,144	47,647	-	503
Total	₩	1,558,558	₩ 1,497,227	₩ 128,602	₩ 67,271

  

<i>(in millions of Korean won)</i>		December 31, 2020			
		Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Construction project					
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 briel		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.

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**16. 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)*

	<b>2021</b>		<b>2020</b>	
	<b>Three months</b>	<b>Nine months</b>	<b>Three months</b>	<b>Nine months</b>
Salaries	₩ 109,691	₩ 328,890	₩ 113,245	₩ 321,036
Retirement and termination benefits	10,152	33,328	10,424	33,518
Employee welfare	20,783	53,108	15,788	43,139
Travel expenses	2,335	5,960	1,983	6,703
Communication cost	1,386	4,315	1,516	4,371
Utilities	3,232	8,740	3,006	8,135
Taxes and dues	(11)	29,636	2,100	27,798
Supplies	1,346	4,168	1,612	4,590
Rent	3,480	10,820	4,224	11,379
Depreciation	14,747	44,763	16,133	46,944
Amortization	3,701	10,728	3,294	10,041
Repairs and maintenance	2,244	5,715	1,720	5,321
Vehicles	1,786	5,069	1,728	5,014
Insurance	1,147	4,183	1,168	3,150
Commissions	106,599	314,834	118,491	334,655
Freight and custody	20,792	52,687	18,436	48,248
Conferences	564	1,870	759	2,469
Advertising	79,473	204,137	67,403	186,939
Education and training	953	3,615	1,156	3,576
Prizes and rewards	303	1,136	641	1,554
Cooperation	271	856	187	739
Research and development	14,750	45,797	13,341	35,993
Impairment loss on trade receivables (reversal)	(333)	7,613	(4,275)	(21,551)
<b>Total</b>	<b>₩ 399,391</b>	<b>₩ 1,181,968</b>	<b>₩ 394,080</b>	<b>₩ 1,123,761</b>

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**17. 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 months	Nine months	Three months	Nine months
Gain on foreign currency transaction	₩ 11,871	₩ 25,785	₩ 4,162	₩ 71,700
Gain on foreign currency translation	79,814	137,414	-	8,588
Gain on valuation of derivatives	-	667	6,930	12,082
Reversal of impairment loss on other receivables	236	351	-	3
Gain on disposal of property, plant and equipment	182	1,962	106	730
Reversal of impairment loss on property, plant and equipment	92	166	-	-
Gain on disposal of investment property	-	30	534	534
Gain on lease contract adjustments	61	161	151	318
Gain on disposal of investments in associates and joint ventures	480	602	-	-
Miscellaneous income	3,037	7,300	306	11,565
Total	₩ 95,773	₩ 174,438	₩ 12,189	₩ 105,520

(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 months	Nine months	Three months	Nine months
Loss on foreign currency transaction	₩ 1,321	₩ 5,120	₩ 7,097	₩ 19,319
Loss on foreign currency translation	476	11,331	45,851	74,072
Loss on valuation of derivatives	10,969	22,774	-	17,360
Loss on impairment of other receivables	2	2	782	782
Loss on disposal of property, plant and equipment	1,207	1,623	1,321	3,096
Loss on impairment of property, plant and equipment	75	75	-	479
Loss on disposal of intangible assets	51	51	99	211
Loss on impairment of intangible assets	159	262	-	23
Loss on disposal of investment properties	65	128	350	493
Loss on disposal of assets held for sale	4	301	-	-
Donations	1,983	4,560	2,599	5,566
Loss on lease contract adjustments	7	12	4	29
Miscellaneous loss	1,232	2,501	2,279	9,665
Total	₩ 17,551	₩ 48,740	₩ 60,382	₩ 131,095

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**18. 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 months	Nine months	Three months	Nine months
Finance income:				
Interest income <sup>1</sup>	₩ 3,196	₩ 9,814	₩ 4,146	₩ 16,695
Dividend income	3,056	17,799	2,342	19,162
Gain on valuation of fair value through profit or loss	4,571	21,068	6,529	37,443
Gain on disposal of long-term deposits in MSA Escrow Fund	-	-	-	29,304
Total finance income	₩ 10,823	₩ 48,681	₩ 13,017	₩ 102,604
Finance costs:				
Interest expense	₩ 6,980	₩ 11,442	₩ 2,082	₩ 5,094
Loss on valuation of fair value through profit or loss	4,114	10,220	1,801	7,789
Total finance cost	₩ 11,094	₩ 21,662	₩ 3,883	₩ 12,883
Net finance income	₩ (271)	₩ 27,019	₩ 9,134	₩ 89,721

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

**19. Income Tax Expense and Deferred Tax Asset**

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 28.18% and 28.64%, respectively.



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**20. Related Parties**

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

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	LitePharmTech Co., Ltd. <sup>1</sup>
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. <sup>1</sup>	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. <sup>1</sup>
	KORAMCO Banpo Project Financing Vehicle Co., Ltd. <sup>1</sup>	KORAMCO Banpo Project Financing Vehicle Co., Ltd. <sup>1</sup>
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. <sup>1</sup>	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. <sup>1</sup>
	KORAMCO Amsa Project Financing Vehicle Co., Ltd. <sup>1</sup>	KORAMCO Amsa Project Financing Vehicle Co., Ltd. <sup>1</sup>
	KOCREF Consigned-management REIT No.36 <sup>2</sup>	-
	AndaStation Professional Investment Private REIT No.1	-
	Kiwoom Milestone Private REIT No.16 <sup>3</sup>	-
	Others	Others
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>4</sup>	KORAMCO Europe Private REIT 3-2 Fund <sup>2</sup>
	Starfield Suwon, Inc.	Starfield Suwon, Inc.

<sup>1</sup>It is classified as an investment in associates although the Group's holdings in the invested company are less than 20%. Since it has the right to participate in the invested company's Board of Directors meeting according to the shareholders' agreement, the Group determined that it has significant influence over the invested company.

<sup>2</sup>It is reclassified as an investment in associates since the Group 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.

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

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

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(b) The Group carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for the three-month and nine-month period ended September 30, 2021, are as follows, and there are no transactions for the three-month and nine-month period ended September 30, 2020:

(in millions of Korean won)

Type	Name of entity	2021				2020			
		Sales and other revenue		Purchase and other expenses		Sales and other revenue			
		Three months	Nine months	Three months	Nine months	Three months	Nine months	Three months	Nine months
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	₩ -	₩ 18	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
	Kiwoom Milestone Private REIT No.16		620		1,212		-		-
	Others		-		775		1,399		-
	KORAMCO Europe Private REIT 3-2 Fund		-		630		-		613
Joint ventures									
Total		₩ 620	₩ 1,860	₩ 775	₩ 1,399	₩ -	₩ -	₩ -	₩ 613

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

(in millions of Korean won)

Type	Name of entity	September 30, 2021		December 31, 2020	
		Receivables	Payables	Receivables	Payables
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	₩ 18	₩ -	₩ -	₩ -
	Others	-	-	-	32
	Starfield Suwon, Inc.	677	-	-	-
Joint ventures					
Total		₩ 695	₩ -	₩ -	₩ 32

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(d) 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 investment		Equity investment	Equity refund <sup>1</sup>
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 REIT No.1		17,764		-
Joint ventures	KB Gimpo Logistics CR REIT Co., Ltd. <sup>1</sup>		-		-
	KORAMCO Private REIT 50 Fund <sup>1</sup>		-		-
	Starfield Suwon, Inc. <sup>2</sup>		45,000		8,000
Total		₩	62,764	₩	22,000
				₩	21,194

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

<sup>2</sup>For the nine-month period ended September 30, 2021, the Group 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) were acquired in August 2021.

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

(f) The Group 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 Group or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

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

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(h) 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>	<b>2021</b>		<b>2020</b>	
Short-term and long-term employee benefits	₩	17,556	₩	16,157
Retirement benefits		1,806		1,607
<b>Total</b>	₩	<b>19,362</b>	₩	<b>17,764</b>

## **21. Risk Management and Fair Value of Financial Instruments**

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

#### **① Currency risk**

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

#### **② Price risk**

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

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of September 30, 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 Group is exposed to credit risk that will cause financial losses to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Group deals with customers with certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of the financial assets. The Group evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, and determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Group periodically reassesses the credit limit, readjusts the collateral level by reassessing the client's creditworthiness, reports the delayed recovery status and recovery measures on a quarterly basis for financial assets that are delayed and takes appropriate measures according to the reason for the delay.

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

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(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>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Financial assets:		
Fair value through profit or loss <sup>1</sup>	₩ 1,854,552	₩ 2,021,289
Fair value through other comprehensive income or loss	247,794	239,539
Derivative assets	-	12,710
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	745,081	400,308
Other financial assets	436,043	417,864
Trade and other receivables	1,347,106	1,312,458
Long-term deposits in MSA Escrow Fund	1,185,650	909,794
Subtotal	3,713,880	3,040,424
Total financial assets	₩ 5,816,226	₩ 5,313,962
Financial liabilities:		
Derivative liabilities	₩ 5,958	₩ 57
Financial liabilities measured at amortized cost		
Short-term borrowings	19,970	17,308
Current portion of long-term borrowings	49,473	37,506
Long-term borrowings	53,396	53,492
Trade and other payables	610,826	645,365
Lease liabilities	40,167	45,709
Liabilities for non-controlling interests	9,580	1,615
Subtotal	783,412	800,995
Total financial liabilities	₩ 789,370	₩ 801,052

<sup>1</sup> As of September 30, 2021, money market trust worth ₩ 615,826 million (December 31, 2020: ₩ 853,304 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 Group uses observable inputs in the market as much as possible. Fair value is classified within the fair value hierarchy based on the inputs used in the valuation technique as follows:

	<b>Inputs used</b>
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

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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 <sup>1</sup>	₩ 1,854,552	₩ -	₩ 1,597,221	₩ 257,331	
Fair value through other comprehensive income or loss	247,794	213,508	-	34,286	
Total financial assets	₩ 2,102,346	₩ 213,508	₩ 1,597,221	₩ 291,617	
Derivative liabilities	₩ 5,958	₩ -	₩ 5,958	₩ -	

<sup>1</sup> As of September 30, 2021, money market trust worth ₩ 615,826 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 <sup>1</sup>	₩ 2,021,289	₩ -	₩ 1,785,944	₩ 235,345	
Fair value through other comprehensive income or loss	239,539	192,658	-	46,881	
Derivative assets	12,710	-	12,710	-	
Total financial assets	₩ 2,273,538	₩ 192,658	₩ 1,798,654	₩ 282,226	
Derivative liabilities	₩ 57	₩ -	₩ 57	₩ -	

<sup>1</sup> As of December 31, 2020, money market trust worth ₩ 853,304 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:

(in millions of Korean won)

	2021		2020	
Beginning balance	₩	282,226	₩	300,427
Acquisition		56,716		7,623
Disposal		(21,080)		(35,082)
Transfers		(30,100)		1,000
Changes in fair value		3,855		601
Ending balance	₩	291,617	₩	274,569

(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	₩ -	₩ -	₩ -	₩ 9,814	₩ -	₩ 9,814
Dividend income	8,432	9,367	-	-	-	17,799
Gain or loss on valuation	10,847	-	(22,107)	-	-	(11,260)
Gain on disposal	-	-	-	-	149	149
Interest expense	-	-	-	-	(11,442)	(11,442)
Reversal of impairment loss	-	-	-	(7,264)	-	(7,264)
Total	₩ 19,279	₩ 9,367	₩ (22,107)	₩ 2,550	₩ (11,293)	₩ (2,204)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 20,927	₩ -	₩ -	₩ -	₩ 20,927

(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	₩ -	₩ -	₩ -	₩ 16,695	₩ -	₩ 16,695
Dividend income	9,672	9,490	-	-	-	19,162
Gain or loss on valuation	29,654	-	(5,278)	-	-	24,376
Gain on disposal	-	-	-	29,304	289	29,593
Interest expense	-	-	-	-	(5,094)	(5,094)
Impairment loss	-	-	-	20,772	-	20,772
Total	₩ 39,326	₩ 9,490	₩ (5,278)	₩ 66,771	₩ (4,805)	₩ 105,504
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (42,358)	₩ -	₩ -	₩ -	₩ (42,358)



## 22. Contingent Liabilities and Commitments

### (a) Litigation cases

As of September 30, 2021, the Group has 21 cases of pending litigations under progress where the Group is the defendant and the litigation value are ₩ 75,512 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of September 30, 2021, on the consolidated financial statements of the Group.

### (b) Commitments with financial institutions

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

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

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank and one other	USD	120,300
Derivatives trading <sup>1</sup>	Hana Bank and five others	USD	374,700
Trade receivables factoring agreement	Hana Bank	KRW	5,000
Discount of notes	Korea Development Bank	KRW	8,000
Others	Korea Development Bank and five others	KRW	190,443
	Hana Bank Bahrain branch	USD	6,600

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

As of September 30, 2021, the Group 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.

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(c) Payment guarantees and collateral

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,433,167	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	8,524	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	27,820	Escrow deposit guarantee
Liberty Mutual and two others	USD	509	Payment guarantees on license bond
Garanti Bank	TRY	2,508	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of September 30, 2021, the Group currently holds inventories from Alokozay International Limited worth ₩ 4,242 million as collateral in order to improve collection of receivables.

As of September 30, 2021, the Group 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 Parent 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.

Payment guarantees provided by the Group 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)		₩ 139,400	₩ 31,738	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of Suwon hwaseo park prugio (Efficiency apartment)	Shinhan Bank and three others	9,480	4,018	
Buyer of Suwon hwaseo prugio briel		76,720	25,940	
Buyer of Gwacheon sangsang Xi tower B		101,740	25,007	
Korea Special Sales Financial Cooperative Association Agency	Korea Special Sales Financial Cooperative Association	2,172	-	Payment guarantee for deductibles
Total		₩ 329,512	₩ 86,703	

The Group 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 12).

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

<i>(in millions of Korean won)</i>	<b>Carrying amount</b>	<b>Debt amount</b>	<b>Collateralized amount</b>	<b>Collateral holder</b>	<b>Type</b>
Property, plant and equipment	₩ 98,220	₩ 3,488	₩ 4,186	Wonju City-Office	Establishment of right to collateral security through a government grant
	27,383	4,334	15,600	KB Kookmin Bank	Collateral for borrowings
	17,744	13,000	22,800	Hana Bank and one other	Collateral for borrowings
Property, plant and equipment	22,929	-	2,400	Korea Development Bank	Collateral for borrowings
Investment property	8,620				Collateral for borrowings
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
<b>Total</b>	<b>₩ 669,407</b>	<b>₩ 46,011</b>	<b>₩ 83,372</b>		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of September 30, 2021, are as follows:

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

As of September 30, 2021, other than explained above, 11 notes and two cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for these bills.

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>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Establishment of a pledge to guarantee real estate development	₩ 10,310	₩ 8,540
Establishment of a pledge for leasehold deposits	597	597
Other financial assets		
Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
Security deposits for checking accounts, etc.	294	1,635
<b>Total</b>	<b>₩ 111,201</b>	<b>₩ 110,772</b>

(d) Others

Each year, the Group 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 Group, 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 Group after 25 years from the date of each deposit. The Group 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 they consist of T-Notes, T-bills and demand deposits.

The Group has maintained a contract with the farmers who grow nine-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩ 124,491 million as of September 30, 2021 (December 31, 2020: ₩ 82,940 million) and ₩ 20,204 million as of September 30, 2021 (December 31, 2020: ₩ 18,643 million), respectively.

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

As of September 30, 2021, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services, Inc.

The Group is currently operating Starfield Suwon, Inc. Corporation after establishing the joint venture under 50:50 ratio with 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 Group or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

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

As of September 30, 2021, the Group is being provided with a commitment from GS Engineering & Construction Corp to complete the construction of Gwacheon sangsang Xi tower, and from Daewoo Engineering & Construction Co., Ltd. to complete the construction of Suwon hwaseo park prugio (Apartment), Suwon hwaseo park prugio (Efficiency apartment), Suwon hwaseo prugio briciel. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee Cooperative in connection with the construction in Suwon.

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As of September 30, 2021, tax investigations are under way for subsidiaries in Indonesia (PT Trisakti Purwosari Makmur and PT KT&G Indonesia) and a subsidiary in Turkey (KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.).

**23. Cash Flows**

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

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Profit for the period	₩	878,582	₩	864,308
Adjustments:				
Employee welfare		17,536		3,151
Retirement benefits		43,091		40,965
Loss on valuation or obsolescence of inventories		5,548		14,869
Depreciation		151,652		145,824
Amortization		10,834		10,185
(Reversal of) impairment loss on trade and other receivables		7,264		(20,772)
Loss on foreign currency translation		11,331		74,072
Loss on valuation of derivatives		22,774		17,360
Loss on disposal of property, plant and equipment		1,623		3,096
Loss on impairment of property, plant and equipment		75		479
Loss on disposal of intangible assets		51		211
Loss on impairment of intangible assets		262		23
Loss on disposal of investment properties		128		493
Loss on disposal of assets held for sale		301		-
Other expenses, etc.		5,790		11,605
Finance cost		21,662		12,883
Income tax expense		344,800		346,876
Gain on foreign currency translation		(137,414)		(8,588)
Gain on valuation of derivatives		(667)		(12,082)
Gain on disposal of property, plant and equipment		(1,962)		(730)
Reversal of impairment loss on property, plant and equipment		(166)		-
Gain on disposal of investment property		(30)		(534)
Gain on disposal of investments in associates and joint ventures		(602)		-
Other income, etc.		(577)		(47,014)
Finance income		(48,681)		(102,604)
Increase (decrease) of investments in associates and joint ventures due to share of net gain/loss		1,053		(4,467)

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Changes in working capital:

Decrease (increase) in trade and other receivables	10,824	(545,852)
Increase in derivatives	(3,496)	(8,366)
Decrease in inventories	185,196	126,829
Decrease in accrued tobacco excise and other taxes	19,509	34,473
Increase in advance payments	(73,301)	(125,071)
Increase in prepaid expenses	(12,823)	(11,995)
Increase in trade and other payables	116,447	79,256
Increase (decrease) in advance receipts	(20,326)	5,736
Increase in tobacco excise and other taxes payable	75,114	639,134
Decrease in provision for site restoration	(7,180)	(4,837)
Decrease in net defined benefit liabilities	(11,574)	(3,784)
Cash generated from operations	<u>₩ 1,612,648</u>	<u>₩ 1,535,132</u>

**24. Restatement of Prior Period Financial Statements**

The consolidated interim financial statements for the nine-month period ended September 30, 2020, presented for comparative purposes were restated to reflect adjustments resulting from the judgment of control over PT Trisakti Purwosari Makmur and others.

The effects of the adjustments on the Group's net assets and profit for the period are as follows:

<i>(in millions of Korean won)</i>	<b>Net assets</b>	<b>Profit (loss) for the period</b>
Exclusion of PT Trisakti Purwosari Makmur from the scope of consolidation	₩ 44,067	₩ (2,962)
Recognition of impairment on subsidiaries	(5,546)	1,141
Income tax effect of adjustments	(5,973)	717
<b>Total</b>	<u>₩ 32,548</u>	<u>₩ (1,104)</u>

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The effects of the above adjustments on the consolidated interim financial statements are as follows (the amount previously reported below is the reported amount of the consolidated interim financial statements attached to the review report dated November 13, 2020):

*(a) Consolidated interim statements of financial position*

*(in millions of Korean won)*

	Amount previously reported	Adjustments	Restated amount
<b>Assets</b>			
Current assets	₩ 6,948,649	₩ 29	₩ 6,948,678
Inventories	2,287,225	29	2,287,254
Non-current assets	4,568,943	38,492	4,607,435
Property, plant and equipment	1,775,151	381	1,775,532
Intangible assets	92,020	38,110	130,130
Total assets	₩ 11,517,592	₩ 38,521	₩ 11,556,113
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Current liabilities	₩ 2,363,709	₩ -	₩ 2,363,709
Non-current liabilities	395,837	5,973	401,810
Deferred income tax liabilities	126,095	5,973	132,068
Total equity	₩ 2,759,546	₩ 5,973	₩ 2,765,519
<b>Equity</b>			
Other capital surplus	₩ (29,556)	₩ 34,054	₩ 4,498
Reserves	5,962,075	8,529	5,970,604
Retained earnings	1,816,818	(10,035)	1,806,783
Equity attributable to owners of the Parent Company	8,701,572	32,548	8,734,120
Non-controlling interest	56,475	-	56,475
Total equity	₩ 8,758,046	₩ 32,548	₩ 8,790,594
Total liabilities and equity	₩ 11,517,592	₩ 38,521	₩ 11,556,113



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*(b) Consolidated interim statements of comprehensive Income*

<i>(in millions of Korean won)</i>	<b>Amount previously reported</b>	<b>Adjustments</b>	<b>Restated amount</b>
<b>Sales</b>	₩ 3,960,664	₩ -	₩ 3,960,664
<b>Cost of sales</b>	(1,694,331)	-	(1,694,331)
<b>Gross profit</b>	2,266,333	-	2,266,333
Selling, general and administrative expense	(1,121,940)	(1,821)	(1,123,761)
<b>Operating profit</b>	1,144,393	(1,821)	1,142,572
Other income	105,519	-	105,519
Other expense	(131,095)	-	(131,095)
Finance income	102,604	-	102,604
Finance costs	(12,883)	-	(12,883)
Share of net profit of associates and joint ventures	4,467	-	4,467
<b>Profit before income tax</b>	1,213,005	(1,821)	1,211,184
Income tax expense	(347,593)	717	(346,876)
<b>Profit for the period</b>	865,412	(1,104)	864,308
Other comprehensive loss	(43,518)	-	(43,518)
<b>Total comprehensive income for the period</b>	₩ 821,894	₩ (1,104)	₩ 820,790
Basic and diluted earnings per shares <i>(in Korean won)</i>	₩ 6,845	₩ (9)	₩ 6,836

*(c) Consolidated interim statements of changes in equity*

The adjustments due to the restatement of the consolidated interim statement of financial position and consolidated interim comprehensive income statement were reflected.

*(d) Consolidated interim statements of cash flows*

<i>(in millions of Korean won)</i>	<b>Amount previously reported</b>	<b>Adjustments</b>	<b>Restated amount</b>
<b>Cash flows from operating activities</b>	₩ 1,207,950	₩ -	₩ 1,207,950
Profit for the period	865,412	(1,104)	864,308
Income tax expense	347,593	(717)	346,876
amortization	8,364	1,821	10,185
<b>Cash flows from investing activities</b>	(256,069)	-	(256,069)
<b>Cash flows from financing activities</b>	(779,526)	-	(779,526)
<b>Net increase in cash and cash equivalents</b>	172,355	-	172,355
Cash and cash equivalents at January 1	891,306	-	891,306
Effect of exchange rate fluctuation on cash and cash equivalents	550	-	550
<b>Cash and cash equivalents at the end of the period</b>	₩ 1,064,211	₩ -	₩ 1,064,211





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

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