

# **KT&G Corporation and Its Subsidiaries**

Interim Consolidated Financial Statements  
For the six-month period ended June 30, 2022  
(Unaudited)  
(With the Report on review of interim separate financial statements)

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## Report on Review of Interim Consolidated Financial Statements

(English Translation of a Report Originally Issued in Korean)

Shareholders and the Board of Directors  
KT&G Corporation

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of June 30, 2022, and the related interim consolidated statement of comprehensive income for the three-month and six-month periods ended June 30, 2022, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Interim Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements 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 ("KSAs") 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 that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

### Other Matters

The interim consolidated statement of comprehensive income for the three-month and six-month periods ended June 30, 2021, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, prepared in accordance with KIFRS 1034 and presented for comparative purposes, have been reviewed by Samil PricewaterhouseCoopers whose review report dated August 13, 2021 expressed an unqualified review conclusion.

The accompanying interim consolidated statement of comprehensive income for the six-month period ended June 30, 2021, on which another auditor expressed an unqualified review conclusion, did not reflect adjustments described in Note 25. The interim consolidated statement of comprehensive income

for the three-month and six-month periods ended June 30, 2021, presented for comparative purposes, reflect the adjustments described in Note 25.

Moreover, the consolidated statement of financial position of the Group as of December 31, 2021, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended which have been audited by Samil PricewaterhouseCoopers, in accordance with KSAs (not presented herein), whose report dated March 18, 2022 expressed an unqualified opinion. The accompanying consolidated statement of financial position as of December 31, 2021, presented for comparative purposes, are not different, in all material respects, from the above audited consolidated statement of financial position.

August 11, 2022

*Ernst & Young Han Young*

This review report is effective as of August 11, 2022, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modifications to this review report.

# **KT&G Corporation and Its Subsidiaries**

## **Interim Consolidated Financial Statements** **for the three-month and six-month periods ended June 30, 2022 and 2021**

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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**KT&G Corporation and Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**As of June 30, 2022 (Unaudited) and December 31, 2021**



(in Korean won)

	Notes	June 30, 2022	December 31, 2021
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	22,23	₩ 1,177,058,554,080	₩ 946,570,845,404
Current other financial assets	22,23	433,230,815,466	457,056,795,720
Current financial assets at fair value through profit or loss	22	790,535,093,445	965,384,441,544
Trade and other receivables	5,16,21,22	1,350,158,473,966	1,012,741,494,275
Derivative assets	22,23	-	580,339,743
Inventories	6	2,223,854,316,328	2,375,380,884,539
Refund assets and others		1,011,971,739	1,795,047,848
Accrued tobacco excise and other taxes		213,707,813,497	324,920,390,897
Advance payments	23	78,159,769,189	98,044,889,263
Prepaid expenses		44,593,724,001	53,262,710,533
Assets held for sale	4,12,21	-	20,123,696,708
<b>Total current assets</b>		<b>6,312,310,531,711</b>	<b>6,255,861,536,474</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	2,805,720,000	9,001,281,420
Long-term deposits in MSA Escrow Fund	22,23	1,464,335,728,774	1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	22,23	281,911,481,046	304,815,651,866
Long-term trade and other receivables	5,22	109,078,085,206	94,759,875,704
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23	200,436,021,366	228,398,434,797
Investments in associates and joint ventures	4,7,21,23	288,937,073,070	242,991,736,041
Property, plant and equipment	8,23	1,712,366,674,975	1,741,041,767,893
Intangible assets	9	160,707,192,853	145,718,649,536
Investment properties	10,23	1,157,762,654,344	1,150,979,933,340
Right-of-use assets	11	36,463,360,819	36,444,918,106
Long-term advance payments	23	144,350,770,241	104,559,554,973
Long-term prepaid expenses		7,269,314,713	8,538,939,470
Deferred tax assets	20	49,877,758,213	52,555,448,304
Net defined benefit assets	14	-	11,135,956,233
<b>Total non-current assets</b>		<b>5,616,301,835,620</b>	<b>5,381,409,657,726</b>
<b>Total assets</b>		<b>₩ 11,928,612,367,331</b>	<b>₩ 11,637,271,194,200</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	₩ 78,768,393,055	₩ 75,432,490,744
Current portion of long-term borrowings	13,22,23	15,356,269,966	2,166,480,000
Trade and other payables	22,23	1,079,397,326,764	971,120,364,253
Current lease liabilities	22	16,343,014,181	17,180,641,274
Derivative liabilities	22,23	14,550,525,151	907,708,348
Advance receipts	16	21,823,832,260	21,918,095,726
Current refund liabilities and provisions	15,23	25,458,049,506	26,130,472,136
Current tax liabilities	20	275,329,234,292	236,397,106,383
Tobacco excise and other taxes payables		708,922,876,156	712,693,018,015
<b>Total current liabilities</b>		<b>2,235,949,521,331</b>	<b>2,063,946,376,879</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13,22,23	49,703,867,467	53,195,098,748
Long-term trade and other payables	21,22,23	80,512,662,529	57,433,928,854
Long-term lease liabilities	22	17,918,667,301	19,377,131,556
Long-term advance receipts	16	3,984,776,108	5,077,077,062
Net defined benefit liabilities	14,21	72,109,838,582	57,735,568,500
Long-term refund liabilities and provisions	15,23	4,703,808,378	5,221,776,727
Deferred tax liabilities	20	153,110,505,853	148,104,701,940
Non-controlling interests liabilities	22	12,007,642,915	18,317,380,882
<b>Total non-current liabilities</b>		<b>394,051,769,133</b>	<b>364,462,664,269</b>
<b>Total liabilities</b>		<b>₩ 2,630,001,290,464</b>	<b>₩ 2,428,409,041,148</b>

**KT&G Corporation and Subsidiaries**  
**Interim Consolidated Statements of Financial Position, Continued**  
As of June 30, 2022 (Unaudited) and December 31, 2021



(in Korean won)

	<u>Notes</u>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
<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		(879,981,829,569)	(879,981,829,569)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,863,620,646,067	6,490,161,242,572
Retained earnings		<u>1,777,940,754,795</u>	<u>2,060,255,463,296</u>
<b>Equity attributable to owners of the Parent Company</b>		<u>9,249,930,895,921</u>	<u>9,158,786,200,927</u>
<b>Non-controlling interest</b>		48,680,180,946	50,075,952,125
<b>Total equity</b>	₩	<u>9,298,611,076,867</u>	₩ <u>9,208,862,153,052</u>
<b>Total liabilities and equity</b>	₩	<u>11,928,612,367,331</u>	₩ <u>11,637,271,194,200</u>

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

# KT&G Corporation and Subsidiaries

## Interim Consolidated Statements of Comprehensive Income

For the three-month and six-month periods ended June 30, 2022 and 2021 (Unaudited)



(in Korean won)

	Notes	June 30, 2022		June 30, 2021	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
<b>Continuing operations</b>					
Sales	4,16,21	₩ 1,417,499,092,398	₩ 2,820,066,587,980	₩ 1,278,180,843,615	₩ 2,486,228,951,246
Cost of sales		(691,183,409,115)	(1,364,911,618,704)	(557,537,996,843)	(1,086,813,097,270)
Gross profit		726,315,683,283	1,455,154,969,276	720,642,846,772	1,399,415,853,976
Selling and administrative expense	17,21	(398,686,523,446)	(794,518,835,355)	(396,365,051,563)	(761,823,192,361)
Operating profit	4	327,629,159,837	660,636,133,921	324,277,795,209	637,592,661,615
Other income	18,21,22	191,704,642,029	265,294,234,059	11,154,661,090	78,392,457,626
Other expense	18,21,22	(44,798,485,342)	(71,016,051,702)	(14,440,297,807)	(31,240,169,367)
Finance income	19,21,22	21,066,267,636	53,796,412,886	17,459,825,170	37,857,119,010
Finance costs	19,22	(16,345,638,525)	(47,267,793,696)	(4,771,868,008)	(10,443,255,885)
Share of net profit of associates and joint ventures	7	826,320,823	14,792,022,187	(932,942,823)	(912,031,254)
Profit before income tax		480,082,266,458	876,234,957,655	332,747,172,831	711,246,781,745
Income tax expense	20	(139,797,253,356)	(268,200,652,583)	(90,639,395,557)	(199,872,605,356)
Profit from continuing operations		340,285,013,102	608,034,305,072	242,107,777,274	511,374,176,389
<b>Discontinued operations</b>					
Profit (loss) from discontinued operations	25	(1,439,685,280)	(5,813,330,471)	4,288,550,255	7,629,951,969
Profit for the period		₩ 338,845,327,822	₩ 602,220,974,601	₩ 246,396,327,529	₩ 519,004,128,358
<b>Other comprehensive income (loss) for the period after income tax</b>					
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities		₩ 194,000,496	(482,519,451)	₩ 9,905,350,298	₩ 9,494,756,541
Gain (loss) on valuation of fair value through other comprehensive income or loss	22	(12,538,632,770)	3,481,958,612	9,227,555,061	21,227,697,898
Capital changes in equity method	7	(151,023,696)	(151,637,733)	3,050,691	2,786,052
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations		59,210,293,361	60,583,778,186	3,315,076,802	9,083,029,619
Capital changes in equity method	7	-	-	1,182,816	1,288,604
Total comprehensive income for the period		₩ 385,559,965,213	₩ 665,652,554,215	₩ 268,848,543,197	₩ 558,813,687,072
<b>Profit for the period is attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations		₩ 340,977,910,639	₩ 609,418,842,148	₩ 244,145,164,246	₩ 514,292,759,659
Profit (loss) from discontinued operations	25	(1,439,685,280)	(5,813,330,471)	4,288,550,255	7,629,951,969
Profit attributable to owners of the Parent Company		339,538,225,359	603,605,511,677	248,433,714,501	521,922,711,628
Non-controlling interests					
Loss from continuing operations		(692,897,537)	(1,384,537,076)	(2,037,386,972)	(2,918,583,270)
Profit (loss) from discontinued operations	25	-	-	-	-
Loss attributable to non-controlling interests		(692,897,537)	(1,384,537,076)	(2,037,386,972)	(2,918,583,270)
Total		₩ 338,845,327,822	₩ 602,220,974,601	₩ 246,396,327,529	₩ 519,004,128,358
<b>Total comprehensive income for the period attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations		₩ 389,656,030,686	₩ 675,365,780,486	₩ 266,660,050,425	₩ 553,080,342,685
Profit (loss) from discontinued operations	25	(3,399,282,382)	(8,317,455,092)	4,226,249,773	8,766,376,527
Total comprehensive income attributable to owners of the Parent Company		386,256,748,304	667,048,325,394	270,886,300,198	561,846,719,212
Non-controlling interests					
Loss from continuing operations		(696,783,091)	(1,395,771,179)	(2,037,757,001)	(3,033,032,140)
Profit from discontinued operations	25	-	-	-	-
Total comprehensive loss attributable to non-controlling interests		(696,783,091)	(1,395,771,179)	(2,037,757,001)	(3,033,032,140)
Total		₩ 385,559,965,213	₩ 665,652,554,215	₩ 268,848,543,197	₩ 558,813,687,072
<b>Earnings per share</b>					
Basic and diluted earnings per share					
From continuing operations		₩ 2,842	₩ 5,079	₩ 1,968	₩ 4,145
From discontinued operations		(12)	(48)	34	61
		₩ 2,830	₩ 5,031	₩ 2,002	₩ 4,206

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



# KT&G Corporation and Subsidiaries

## Interim Consolidated Statements of Changes in Equity For the six-month periods ended June 30, 2022 and 2021 (Unaudited)



(in Korean won)

### Balance as of January 1, 2021

#### Total comprehensive income (loss) for the period

Profit for the period  
Other comprehensive income (loss) for the period:  
Re-measurements of net defined benefit liabilities  
Gain on valuation of fair value through  
other comprehensive income or loss  
Transfer from gain on disposal of fair value through  
other comprehensive income or loss to retained earnings  
Exchange differences on translating foreign operations  
Capital changes in equity method

### Total comprehensive income (loss) for the period

#### Transactions with owners of the Parent Company:

Dividends  
Transfer to other reserves

### Balance as of June 30, 2021

### Balance as of January 1, 2022

#### Total comprehensive income (loss) for the period

Profit for the period  
Other comprehensive income (loss) for the period:  
Re-measurements of net defined benefit liabilities  
Gain on valuation of fair value through  
other comprehensive income or loss  
Transfer from gain on disposal of fair value through  
other comprehensive income or loss to retained earnings  
Exchange differences on translating foreign operations  
Capital changes in equity method

### Total comprehensive income (loss) for the period

#### Transactions with owners of the Parent Company:

Dividends  
Transfer to other reserves

### Balance as of June 30, 2022

	Share capital	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserves	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,977,643,096,280	₩ 2,102,474,813,582	₩ 9,036,851,140,891	₩ 54,720,515,354	₩ 9,091,571,656,245	
	-	-	-	-	-	521,922,711,628	(2,918,583,270)	519,004,128,358	
	-	-	-	-	-	9,492,721,134	2,035,407	9,494,756,541	
	-	-	-	-	21,227,697,898	-	-	21,227,697,898	
	-	-	-	-	3,686,669,453	(3,686,669,453)	-	-	
	-	-	-	-	9,199,513,896	-	9,199,513,896	(116,484,277)	
	-	-	-	-	4,074,656	-	4,074,656	-	
	-	-	-	-	34,117,955,903	5,806,051,681	39,924,007,584	(114,448,870)	
	-	-	-	-	34,117,955,903	527,728,763,309	561,846,719,212	(3,033,032,140)	
	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)	-	
	-	-	-	-	464,637,806,718	(464,637,806,718)	-	-	
	-	-	-	-	464,637,806,718	(1,060,221,437,118)	(595,583,630,400)	-	
₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,476,398,658,901	₩ 1,569,982,139,753	₩ 9,003,114,229,703	₩ 51,687,483,214	₩ 9,054,801,712,917	
₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,490,161,242,572	₩ 2,080,255,463,296	₩ 9,158,786,200,927	₩ 50,075,952,125	₩ 9,208,862,153,052	
	-	-	-	-	-	603,605,511,677	(1,384,537,076)	602,220,974,601	
	-	-	-	-	-	(473,448,299)	(9,071,152)	(482,519,451)	
	-	-	-	-	3,481,958,612	-	3,481,958,612	-	
	-	-	-	-	8,330,221,000	(8,330,221,000)	-	-	
	-	-	-	-	60,585,941,137	-	60,585,941,137	(2,162,951)	
	-	-	-	-	(151,637,733)	-	(151,637,733)	-	
	-	-	-	-	72,246,483,016	(8,803,669,299)	63,442,813,717	(11,234,103)	
	-	-	-	-	72,246,483,016	594,801,842,378	667,048,325,394	(1,395,771,179)	
	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	
	-	-	-	-	301,212,920,479	(301,212,920,479)	-	-	
	-	-	-	-	301,212,920,479	(877,116,550,879)	(575,903,630,400)	-	
₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,863,620,646,067	₩ 1,777,940,754,795	₩ 9,249,930,895,921	₩ 48,680,180,946	₩ 9,298,611,076,867	

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

**KT&G Corporation and Subsidiaries**  
**Interim Consolidated Statements of Cash Flows**  
For the six-month periods ended June 30, 2022 and 2021 (Unaudited)



(in Korean won)

	Notes	June 30, 2022	June 30, 2021
<b>Net cash flows provided by operating activities</b>			
Cash generated from operations	24	₩ 641,906,226,201	₩ 405,719,006,716
Income taxes paid		(220,665,192,236)	(231,851,058,291)
<b>Net cash flows provided by (used in) investing activities</b>			
Interest received		134,234,657,892	(99,792,247,235)
Dividends received		7,606,595,171	4,423,940,661
Decrease in other financial assets		18,932,684,635	15,397,343,074
Decrease in current financial assets measured at fair value through profit or loss		474,875,076,497	259,134,115,068
Decrease in long-term financial assets measured at fair value through profit or loss		231,428,396,358	176,375,489,709
Disposal of property, plant and equipment		-	20,058,015,964
Disposal of intangible assets		310,232,652	3,936,079,489
Disposal of investment properties		300,000,000	8,618,750
Disposal of assets held for sale		-	439,861,511
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		69,683,672,184	407,686,208
Disposal of investments in associates and joint ventures		7,200,000,000	72,839,804
Collection of loans		12,278,711,553	-
Collection of guarantee deposits		11,999,296,773	10,121,915,115
Collection of finance lease receivables		168,398,188	183,629,183
Increase in other financial assets		-	66,454,481
Increase in current financial assets measured at fair value through profit or loss		(444,877,960,000)	(289,000,358,668)
Increase in long-term financial assets measured at fair value through profit or loss		(320,000,000)	-
Increase in long-term deposits in MSA Escrow Fund		(26,042,400,800)	(22,642,000,000)
Acquisition of property, plant and equipment		(93,469,533,240)	(120,077,263,844)
Acquisition of intangible assets		(59,921,446,148)	(84,991,000,604)
Acquisition of investment properties		(25,482,485,809)	(13,330,621,399)
Acquisition of right-of-use assets		(7,305,505,179)	(8,838,105,344)
Increase in long-term financial assets measured at fair value through other comprehensive income or loss		(1,545,580,665)	(8,813,161)
Acquisition of investments in associates and joint ventures		(2,999,982,000)	(18,499,990,606)
Increase in loans		(29,488,895,600)	(15,000,000,000)
Increase in guarantee deposits		(7,476,582,983)	(17,760,024,849)
		(1,618,033,695)	(270,057,777)
<b>Net cash flows used in financing activities</b>			
Dividends payment		(575,912,490,723)	(603,596,852,324)
Interest paid		(575,903,630,400)	(595,583,630,400)
Repayment of lease liabilities		(2,057,896,044)	(1,732,024,594)
Repayment of borrowings		(9,836,097,079)	(10,985,043,655)
Increase in borrowings		(59,336,007,430)	(48,801,617,556)
		71,221,140,230	53,505,463,881
<b>Net increase (decrease) in cash and cash equivalents</b>			
		200,228,393,370	(297,670,092,843)
<b>Cash and cash equivalents at the beginning of the period</b>			
Effect of exchange rate fluctuation on cash and cash equivalents		946,570,845,404	1,253,611,491,485
		30,259,315,306	(17,531,942,429)
<b>Cash and cash equivalents at the end of the period</b>		₩ 1,177,058,554,080	₩ 938,409,456,213

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

## 1. Reporting Entity

### 1.1 Overview of the Parent Company

KT&G Corporation (the "Parent Company") is engaged in manufacturing and selling tobaccos. As of June 30, 2022, the Parent Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 113 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Parent Company's major shareholders as of June 30, 2022, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	10,361,273	7.55
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,032,649	2.94
Treasury shares	17,312,574	12.61
Others	96,075,516	69.97
	<u>137,292,497</u>	<u>100.00</u>

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued June 30, 2022 and 2021 (Unaudited)



### 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of June 30, 2022 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 and others	100.00	June 30, 2022	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	June 30, 2022	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	June 30, 2022	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	June 30, 2022	Turkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	June 30, 2022	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	June 30, 2022	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	June 30, 2022	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	June 30, 2022	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	June 30, 2022	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	June 30, 2022	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	June 30, 2022	Indonesia
	SangSang Stay Inc.	Hotel business	100.00	June 30, 2022	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	June 30, 2022	Russia
	Gwacheon Sangsang PFV. Inc.	Real estate development and sales business	51.00	June 30, 2022	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	June 30, 2022	Taiwan
	Master No.144 PFV Co., Ltd.	Real estate development and sales business	92.50	June 30, 2022	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	June 30, 2022	Korea
	KGC Life&Gin Co., Ltd.	Selling ginseng and others	100.00	June 30, 2022	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	June 30, 2022	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng and others	100.00	June 30, 2022	Taiwan
	Korean Red Ginseng Corp, Inc.	Selling ginseng and others	100.00	June 30, 2022	USA
	Korea Ginseng (China) Corp.	Selling ginseng and others	100.00	June 30, 2022	China
Cosmococ Co., Ltd.	K&I HK Co., Ltd.	Selling ginseng and others	98.56	June 30, 2022	HongKong
	K&I China Co., Ltd.	Selling ginseng and others	98.56	June 30, 2022	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	June 30, 2022	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	June 30, 2022	Indonesia

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

## **KT&G Corporation and Subsidiaries**

### **Notes to the Interim Consolidated Financial Statements, Continued**

June 30, 2022 and 2021 (Unaudited)

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The Parent Company has acquired 19,341,920 shares (₩8,081 million) of KT&G Taiwan Corporation and 7,400,000 shares (₩37,000 million) of Mastern No.144 PFV Co., Ltd. during the year ended December 31, 2021, through establishment of capital investment.

The Parent Company has acquired 6,978,948 shares (₩25,291 million) of Renzoluc Pte., Ltd. during the year ended December 31, 2021, through a purchase of shares.

Cosmococ Co., Ltd., a subsidiary of the Parent Company, has acquired 250,000 shares (₩287 million) of K&I HK Co., Ltd. during the year ended December 31, 2021, through a capital increase with consideration.

## **2. Significant Accounting Policies**

### **(1) Basis of Preparation**

The interim consolidated financial statements of the Group have been prepared in accordance with KIFRS 1034 *Interim Financial Reporting*. The accompanying interim consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The Group's interim consolidated financial statements should be read in conjunction with its year-end consolidated financial statements, since the interim consolidated financial statements do not include all information and notes which are required for the year-end consolidated financial statements.

### **(2) New and amended standards and interpretations adopted by the Group**

The Group does not have a history of early adoption of new accounting standards and interpretations that have been published but which are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time for the 2022 reporting period. As of June 30, 2022, these amendments and interpretations do not have a significant impact on the interim financial statements.

#### ***(a) Amendments to KIFRS 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.

#### ***(b) Amendments to KIFRS 1103 Business Combinations – 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 KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

#### ***(c) Amendments to KIFRS 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.

*(d) Amendments to KIFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters*

The amendments allow subsidiaries that have elected to adopt paragraph D16 (1) of KIFRS 1101 to measure the accumulated foreign currency translation differences using the amount that the Parent Company has reported on the date of the Parent Company's adoption of KIFRS.

*(e) Amendments to KIFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

*(f) Amendments to KIFRS 1041 Agriculture – Measuring fair value*

The amendments removed the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041 Agriculture.

**(3) Significant Accounting Policies**

Significant accounting policies and method of computation used in the preparation of the interim consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2021, except for the changes due to the application of amendment and enactments of standards described in Note 2.(2) and the one described below.

*(a) 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 accounting estimates may not equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these interim consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2021, except for the estimates used to determine income tax expense.

### 4. Operating Segment

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

Operating Segments	Principal operations
Tobacco	Manufacturing and selling tobaccos and others
Ginseng	Manufacturing and selling red ginseng and others
Real estate	Selling and renting real estate and others
Others	Manufacturing and selling pharmaceuticals, cosmetics and others

(b) Segment information on sales and operating profit for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022						
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 1,918,458	₩ 730,666	₩ 289,641	₩ 146,717	₩ 3,085,482	₩ (265,415)	₩ 2,820,067
Intersegment sales	(149,060)	(67,450)	(39,428)	(9,477)	(265,415)	265,415	-
External sales	1,769,398	663,216	250,213	137,240	2,820,067	-	2,820,067
Operating profit (loss) <sup>2</sup>	555,879	38,639	99,083	(6,222)	687,379	(34,189)	653,190

<sup>1</sup>Profit (loss) from discontinued operations is included (see Note 25).

<sup>2</sup>Other income or expenses items not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.



# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued June 30, 2022 and 2021 (Unaudited)



(in millions of Korean won)

June 30, 2021

	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 1,670,512	₩ 745,842	₩ 349,020	₩ 125,144	₩ 2,890,518	₩ (280,164)	₩ 2,610,354
Intersegment sales	(184,205)	(75,271)	(18,361)	(2,327)	(280,164)	280,164	-
External sales	1,486,307	670,571	330,659	122,817	2,610,354	-	2,610,354
Operating profit (loss) <sup>2</sup>	465,684	65,997	138,440	(12,576)	657,545	(9,726)	647,819

<sup>1</sup>Profit (loss) from discontinued operations is included (see Note 25).

<sup>2</sup>Other income or expenses items not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

(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 KIFRS 1108.

(in millions of Korean won)

June 30, 2022

June 30, 2021

		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Revenue recognized at a point in time:					
Tobacco	Wholesale and retail	₩ 893,722	₩ 1,686,057	₩ 703,830	₩ 1,334,164
	Direct sales	47,862	83,341	14,354	28,018
	Discontinued operations	-	-	68,272	124,125
Ginseng	Wholesale and retail	133,758	330,488	137,206	337,019
	Direct sales	132,625	332,728	130,367	333,552
Others	Wholesale and retail	63,933	129,514	59,930	117,014
	Direct sales	4,506	7,726	3,093	5,803
Subtotal		1,276,406	2,569,854	1,117,052	2,279,695
Revenue recognized over time:					
Real estate	Sales and rental	141,093	250,213	229,401	330,659
	Total	₩ 1,417,499	₩ 2,820,067	₩ 1,346,453	₩ 2,610,354

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued June 30, 2022 and 2021 (Unaudited)



(d) Segment information on assets and liabilities as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		June 30, 2022							
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated	
Assets:									
Segment assets	₩	5,703,487	2,073,145	1,364,083	258,925	9,399,640	(2,329,944)	₩	7,069,696
Investments in associates and joint ventures		-	-	284,533	4,404	288,937	-		288,937
Subtotal		<u>5,703,487</u>	<u>2,073,145</u>	<u>1,648,616</u>	<u>263,329</u>	<u>9,688,577</u>	<u>(2,329,944)</u>		<u>7,358,633</u>
Common assets									4,569,979
Total assets								₩	<u>11,928,612</u>
Acquisition of non-current assets	₩	<u>75,157</u>	<u>16,329</u>	<u>3,728</u>	<u>3,919</u>	<u>99,133</u>	<u>10,393</u>	₩	<u>109,526</u>
Liabilities:									
Segment liabilities	₩	2,222,931	217,810	99,458	139,354	2,679,553	(666,285)	₩	2,013,268
Common liabilities									616,733
Total liabilities								₩	<u>2,630,001</u>

(in millions of Korean won)

		December 31, 2021							
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated	
Assets:									
Segment assets	₩	5,356,142	2,150,747	1,379,475	257,294	9,143,658	(2,150,978)	₩	6,992,680
Investments in associates and joint ventures		-	-	238,592	4,400	242,992	-		242,992
Assets held for sale		<u>14,901</u>	<u>5,440</u>	<u>-</u>	<u>-</u>	<u>20,341</u>	<u>(217)</u>		<u>20,124</u>
Subtotal		<u>5,371,043</u>	<u>2,156,187</u>	<u>1,618,067</u>	<u>261,694</u>	<u>9,406,991</u>	<u>(2,151,195)</u>		<u>7,255,796</u>
Common assets									4,381,475
Total assets								₩	<u>11,637,271</u>
Acquisition of non-current assets	₩	<u>209,329</u>	<u>166,752</u>	<u>86,087</u>	<u>21,813</u>	<u>483,981</u>	<u>(93,551)</u>	₩	<u>390,430</u>
Liabilities:									
Segment liabilities	₩	1,958,575	202,057	90,547	141,388	2,392,567	(523,360)	₩	1,869,207
Common liabilities									559,202
Total liabilities								₩	<u>2,428,409</u>

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.

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



(e) Geographical information determined by customer's location for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022			June 30, 2021		
	Korea	Overseas	Total	Korea	Overseas <sup>1</sup>	Total
Sales	₩ 1,917,223	₩ 902,844	₩ 2,820,067	₩ 1,945,823	₩ 664,531	₩ 2,610,354
Non-current assets	2,943,825	123,475	3,067,300	2,831,568	127,349	2,958,917

<sup>1</sup>Overseas sales ₩124,125 million, classified as profit or loss from discontinued operations for the six-month period ended June 30, 2021 is included.

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.

**5. Trade and Other Receivables**

(a) Trade and other receivables as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,230,100	₩ -	₩ 904,504	₩ -
Loans	17,471	56,462	17,123	60,827
Other receivables	58,136	1,068	39,855	3,612
Guarantee deposits	37,994	51,524	48,775	30,170
Accrued income	6,457	24	2,484	151
Total	₩ 1,350,158	₩ 109,078	₩ 1,012,741	₩ 94,760

(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 June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,430,714	₩ 109,158	₩ 1,091,383	₩ 95,125
Allowances:				
Trade receivables	(79,830)	-	(77,675)	-
Other receivables	(726)	(80)	(967)	(365)
Total allowances	(80,556)	(80)	(78,642)	(365)
Net trade and other receivables	₩ 1,350,158	₩ 109,078	₩ 1,012,741	₩ 94,760

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Beginning balance	₩ 79,007	₩ 87,776
Loss (reversal) of impairment <sup>1</sup>	(146)	7,831
Write off	(166)	-
Net exchange difference	1,941	417
Ending balance	₩ 80,636	₩ 96,024

<sup>1</sup>Impairment loss classified as profit or loss from discontinued operations of ₩111 million and ₩415 million are included for the six-month periods ended June 30, 2022 and 2021, respectively.

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 statements of comprehensive income.

## 6. Inventories

(a) Inventories as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022			December 31, 2021		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 47,468	₩ (3,303)	₩ 44,165	₩ 57,930	₩ (2,609)	₩ 55,321
Finished goods	353,038	(38,051)	314,987	369,572	(37,102)	332,470
Half-finished goods and work in progress	933,200	(2,640)	930,560	1,041,928	(3,881)	1,038,047
Raw materials	833,370	(9,010)	824,360	830,469	(8,671)	821,798
Supplies	53,960	-	53,960	51,331	-	51,331
By-products	6,328	-	6,328	6,551	-	6,551
Buildings under construction	9,723	-	9,723	5,926	-	5,926
Completed buildings	1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate	16,442	-	16,442	24,416	-	24,416
Goods in transit	21,839	-	21,839	36,395	-	36,395
Total	₩ 2,276,858	₩ (53,004)	₩ 2,223,854	₩ 2,427,644	₩ (52,263)	₩ 2,375,381

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories <sup>1</sup>	₩ (37)	₩ (3,204)	₩ (1,902)	₩ (1,940)
Loss on obsolescence of inventories	632	3,512	1,028	3,912
Other expense:				
Loss on obsolescence of inventories	1	12	-	-
Total	₩ 596	₩ 320	₩ (874)	₩ 1,972

<sup>1</sup>Reversal on valuation of inventories classified as profit or loss from discontinued operations of ₩65 million and ₩167 million are included for the six-month periods ended June 30, 2022 and 2021, respectively.

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



### 7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

		June 30, 2022		June 30, 2021
Beginning balance	₩	242,992	₩	132,187
Acquisition		29,489		15,122
Disposal		(12,279)		-
Shares of net profit or loss		14,792		(912)
Dividends		(2,862)		(649)
Reclassification <sup>1</sup>		17,014		-
Changes in Equity		(209)		6
Ending balance	₩	288,937	₩	145,754

<sup>1</sup>For the six-month period ended June 30, 2022, KOCREF 41 REIT is reclassified as investment in associates from financial assets at fair value through other comprehensive income, and KORAMCO Amsa PFV Co., Ltd. is reclassified as assets held for sale from investment in associates (see Note 12, 21).

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



### 8. Property, Plant and Equipment

Changes in property, plant and equipment for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Beginning balance	₩ 1,741,042	₩ 1,718,412
Acquisition	66,993	77,323
Disposal/Impairment	(1,175)	(616)
Depreciation <sup>1</sup>	(79,990)	(78,082)
Reclassification and others	(14,503)	(4,973)
Ending balance	₩ 1,712,367	₩ 1,712,064

<sup>1</sup>Depreciation expense (₩160 million for the six-month period ended June 30, 2021) classified as profit or loss from a discontinued operations is included.

### 9. Intangible Assets

Changes in intangible assets for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Beginning balance	₩ 145,719	₩ 134,084
Acquisition	22,082	13,326
Disposal/Impairment	(768)	(197)
Amortisation	(8,687)	(7,102)
Reclassification and others	2,361	589
Ending balance	₩ 160,707	₩ 140,700

## 10. Investment Properties

Changes in investment properties for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beginning balance	₩ 1,150,980	₩ 1,030,179
Acquisition	7,370	8,838
Disposal/Impairment	-	(473)
Depreciation	(10,306)	(10,884)
Reclassification and others	9,719	31,969
Ending balance	₩ 1,157,763	₩ 1,059,629

## 11. Right-of-use Assets

Changes in right-of-use assets for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beginning balance	₩ 36,445	₩ 49,088
Acquisition	13,082	8,977
Disposal	(1,733)	(239)
Depreciation <sup>1</sup>	(11,777)	(11,767)
Reclassification and others	446	465
Ending balance	₩ 36,463	₩ 46,524

<sup>1</sup>Depreciation expense (₩805 million for the six-month period ended June 30, 2021) classified as profit or loss from discontinued operations is included.

## 12. Assets Held for Sale

Changes in assets held for sale for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beginning balance	₩ 20,124	₩ 2,681
Disposal	(43,756)	(604)
Reclassification and others <sup>1</sup>	23,632	(77)
Ending balance	₩ -	₩ 2,000

<sup>1</sup>Consist of ₩22,647 million reclassified from investment properties and ₩985 million reclassified from investment in associates (₩77 million of exchange differences on translation foreign operations for the six-month period ended June 30, 2021).



# KT&G Corporation and Subsidiaries

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June 30, 2022 and 2021 (Unaudited)



### 13. Borrowings

(a) Short-term borrowings as of June 30, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Borrowings	Hana Bank	FTP+0.994~1.2	₩ 11,500	₩ 4,000
		Bank Debenture (6 months)+1.62	3,000	3,000
		3.5	8,000	8,000
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	5,821	5,344
	KB Kookmin Bank	3.5	40,000	40,000
	Shinhan Bank	Bank Debenture (6 months)+1.13	10,000	10,000
		Internal interest rate+1.12	-	1,000
	Korea Development Bank	Industrial Financial Debenture (1 year)+1.15	-	3,500
	Subtotal		78,321	74,844
Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank	-	324	437
	Hana Card	-	123	152
	Subtotal		447	589
	Total		₩ 78,768	₩ 75,433

<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.

(b) Current portion of long-term borrowings and long-term borrowings as of June 30, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2023.05.30~2026.06.30	-	₩ 52,351	₩ 51,569
			MOR(6 months) +1.03	1,375	1,925
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.58	1,334	1,867
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year) +0.66	10,000	-
	Total			₩ 65,060	55,361
Consolidated statements of financial position:					
Current				15,356	2,166
Non-current				49,704	53,195
	Total			₩ 65,060	₩ 55,361

<sup>1</sup>The borrowing is a policy fund (contractual cultivation fund) for ginseng systematization project supported by the Ministry for Agriculture, Food and Rural Affairs. Therefore, the interest rate on the loan is 0%, and the amount of present value discounts is recognized as a government subsidy after calculating the present value every quarter.

(c) As discussed in Note 23.(c) of interim consolidated financial statements, the Group is providing collateral for the above borrowings.

**14. Employee Benefits**

(a) Profit or loss recognized related to employee benefits for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

*(in millions of Korean won)*

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Defined benefit plans:				
Current service cost	₩ 12,714	₩ 25,647	₩ 14,658	₩ 28,560
Net interest on net defined benefit liabilities	519	795	515	1,029
Past service costs and settlement gain and loss	(1,474)	(1,474)	-	-
Subtotal	11,759	24,968	15,173	29,589
Defined contribution plan:				
Contributions recognized as expense	1,294	3,406	1,307	3,636
Other long-term employee benefits:				
Current service cost, etc.	1,475	2,898	6,713	7,759
Termination benefits:				
Voluntary retirements, etc.	-	2,214	3	1,735
Total	₩ 14,528	₩ 33,486	₩ 23,196	₩ 42,719

(b) Net defined benefit liabilities (assets) as of June 30, 2022 and December 31, 2021 are as follows:

*(in millions of Korean won)*

	June 30, 2022	December 31, 2021
Present value of defined benefit obligations	₩ 593,651	₩ 585,308
Fair value of plan assets	(521,541)	(538,708)
Total	₩ 72,110	₩ 46,600

**15. Refund Liabilities and Provisions**

(a) Refund liabilities and provisions as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,515	₩ -	₩ 4,915	₩ -
Refund liabilities	14,007	3,802	14,340	3,367
Provision for site restoration	6,471	707	3,497	1,604
Provision for financial guarantee	-	193	21	250
Provision for greenhouse gases	62	-	269	-
Provision for others	1,403	2	3,089	1
Total	₩ 25,458	₩ 4,704	₩ 26,131	₩ 5,222

(b) Changes in refund liabilities and provisions for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ -	₩ (1,400)	₩ 3,515
Refund liabilities	17,707	2,536	(2,434)	17,809
Provision for site restoration	5,101	2,157	(80)	7,178
Provision for financial guarantee	271	-	(78)	193
Provision for greenhouse gases	269	-	(207)	62
Provision for others	3,090	173	(1,858)	1,405
Total	₩ 31,353	₩ 4,866	₩ (6,057)	₩ 30,162

(in millions of Korean won)

	June 30, 2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 194	₩ (1,043)	₩ 3,615
Refund liabilities	11,243	5,033	(4,327)	11,949
Provision for site restoration	13,476	422	(4,950)	8,948
Provision for financial guarantee	622	77	(179)	520
Provision for greenhouse gases	178	44	(85)	137
Provision for others	718	51	-	769
Total	₩ 30,701	₩ 5,821	₩ (10,584)	₩ 25,938

**16. Real Estate Pre-sales Contract**

(a) Details of ongoing real estate pre-sales contracts for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

June 30, 2022								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>1</sup>	Cost (cumulative) <sup>2</sup>
Suwon hwaseo prugio briel	June 2020	September 2023	53.48	₩ 791,406	₩ 750,989	₩ 401,641	₩ 156,766	₩ 180,658
Gwacheon sangsang Xi tower B	January 2021	May 2023	54.19	239,568	239,568	128,068	52,815	71,878
Total				₩ 1,030,974	₩ 990,557	₩ 529,709	₩ 209,581	₩ 252,536

<sup>1</sup>Excludes sales revenue of Suwon hwaseo park prugio, ₩4,198 million due to the fact that the construction has been completed and pre-sales contract is in progress as of June 30, 2022.

<sup>2</sup>Excludes cumulative costs of ₩1,985 million for common infrastructure.

(in millions of Korean won)

June 30, 2021								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	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	92.85	₩ 1,188,399	₩ 1,186,535	₩ 1,101,693	₩ 189,708	₩ 462,584
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	92.55	112,051	106,488	96,975	16,866	59,071
Suwon hwaseo prugio briel	June 2020	September 2023	18.21	791,427	751,010	136,757	74,532	61,483
Gwacheon sangsang Xi tower B	January 2021	May 2023	7.28	239,568	239,568	17,379	17,379	10,121
Total				₩ 2,331,445	₩ 2,283,601	₩ 1,352,804	₩ 298,485	₩ 593,259

<sup>1</sup>Excludes cumulative costs of ₩43,019 million for common infrastructure.

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(b) Receivables and payables for ongoing real estate pre-sales contracts as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

June 30, 2022				
Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo prugio briel	₩ 401,641	₩ 302,381	₩ 102,877	₩ 3,617
Gwacheon sangsang Xi tower B	128,068	94,073	33,995	-
Total	₩ 529,709	₩ 396,454	₩ 136,872	₩ 3,617

(in millions of Korean won)

December 31, 2021				
Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 1,212,154	₩ 1,202,022	₩ 10,132	-
Suwon hwaseo park prugio (Efficiency apartment)	109,719	104,499	5,558	338
Suwon hwaseo park prugio (Commercial facility)	57,262	58,265	-	1,003
Suwon hwaseo prugio briel	244,875	227,360	20,715	3,200
Gwacheon sangsang Xi tower B	75,253	71,252	4,001	-
Total	₩ 1,699,263	₩ 1,663,398	₩ 40,406	₩ 4,541

(c) No Material changes in estimated total contract revenues and total contract costs have occurred for the six-month period ended June 30, 2022. 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 June 30, 2022 and subject to change in the future.

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### 17. Selling and Administrative Expenses

Selling and administrative expenses for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended <sup>1</sup>	Three-month period ended	Six-month period ended <sup>1</sup>
Salaries	₩ 115,024	₩ 233,924	₩ 106,536	₩ 219,199
Retirement and termination benefits	9,163	20,865	10,815	23,176
Employee welfare	18,635	36,828	19,062	32,325
Travel expenses	4,720	7,454	2,097	3,624
Communication cost	1,627	3,101	1,503	2,929
Utilities	2,751	6,086	2,129	5,508
Taxes and dues	23,268	26,133	26,992	29,647
Supplies	1,377	2,685	1,317	2,824
Rent	3,945	8,747	3,691	7,340
Depreciation	14,841	30,360	14,992	30,016
Amortization	4,816	8,575	3,460	7,028
Repairs and maintenance	1,669	2,588	2,334	3,471
Vehicles	1,999	3,699	1,790	3,283
Insurance	241	1,207	1,365	3,036
Commissions	98,092	210,487	98,009	208,234
Freight and custody	15,888	33,134	15,685	31,895
Conferences	1,223	1,887	784	1,307
Advertising	69,260	140,563	68,506	124,664
Education and training	1,063	2,177	1,419	2,662
Prizes and rewards	480	772	441	832
Cooperation	477	872	293	584
Research and development	10,985	19,547	15,082	31,047
Impairment loss on trade receivables	74	274	9,163	7,946
Total	₩ 401,618	₩ 801,965	₩ 407,465	₩ 782,577

<sup>1</sup>Includes profit (loss) in relation to discontinued operations for the six-month periods ended June 30, 2022 and 2021 of ₩7,446 million and ₩20,754 million, respectively.

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued June 30, 2022 and 2021 (Unaudited)



### 18. Other Income and Expense

(a) Other income for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended <sup>1</sup>	Three-month period ended	Six-month period ended <sup>1</sup>
Gain on foreign currency transaction	₩ 18,104	₩ 25,181	₩ 6,198	₩ 13,915
Gain on foreign currency translation	157,168	198,125	-	57,600
Gain on valuation of derivatives	-	-	713	718
Reversal of impairment loss on other receivables	358	420	27	115
Gain on disposal of property, plant and equipment	35	48	1,622	1,780
Reversal on impairment of property, plant and equipment	-	-	74	74
Gain on disposal of investment property	-	-	25	30
Gain on lease contract adjustments	71	132	71	100
Gain on disposal of investments in associates and joint ventures	-	-	-	122
Gain on disposal of assets held for sale	7,119	34,088	2,480	-
Miscellaneous income	11,358	10,500	-	4,263
Total	₩ 194,213	₩ 268,494	₩ 11,210	₩ 78,717

<sup>1</sup>Profit (loss) relating discontinued operations of ₩3,199 million and ₩324 million for the six-month periods ended June 30, 2022 and 2021 are included, respectively.

(b) Other expense for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended <sup>1</sup>	Three-month period ended	Six-month period ended
Loss on foreign currency transaction	₩ 8,331	₩ 11,905	₩ 2,186	₩ 3,799
Loss on foreign currency translation	8,712	21,103	9,084	10,855
Loss on valuation of derivatives	23,876	28,961	15	11,856
Loss on disposal of property, plant and equipment	375	455	340	416
Loss on impairment of property, plant and equipment	511	511	-	-
Loss on disposal of intangible assets	9	378	-	-
Loss on impairment of intangible assets	58	91	68	103
Loss on disposal of Investment properties	-	-	63	63
Loss on disposal of assets held for sale	-	1,217	1	298
Donations	1,153	2,532	1,673	2,576
Loss on lease contract adjustments	5	8	1	5
Miscellaneous loss	2,786	5,422	1,009	1,269
Total	₩ 45,816	₩ 72,583	₩ 14,440	₩ 31,240

<sup>1</sup>Profit (loss) relating discontinued operations of ₩1,566 million for the six-month period ended June 30, 2022 of is included.

## 19. Finance Income and Costs

Finance income and costs for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended <sup>2</sup>
Finance income:				
Interest income <sup>1</sup>	₩ 6,463	₩ 10,982	₩ 3,254	₩ 6,619
Dividend income	5,828	14,445	5,987	14,744
Gain on valuation of fair value through profit or loss	8,776	28,369	8,219	16,496
Total finance income	₩ 21,067	₩ 53,796	₩ 17,460	₩ 37,859
Finance cost:				
Interest expense	₩ 7,035	₩ 15,911	₩ 2,130	₩ 4,462
Loss on valuation of fair value through profit or loss	9,310	21,057	2,704	6,106
Other financial expense	-	10,300	-	-
Total finance cost	₩ 16,345	₩ 47,268	₩ 4,834	₩ 10,568
Net finance income	₩ 4,722	₩ 6,528	₩ 12,626	₩ 27,291

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

<sup>2</sup>Loss relating discontinued operation for the six-month period ended June 30, 2021 of ₩124 million is included.

## 20. 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 six-month periods ended June 30, 2022 and 2021, are 30.81% and 28.08%, respectively.



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### 21. Related Parties

(a) The Group's related parties as of June 30, 2022 and December 31, 2021 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			June 30, 2022	December 31, 2021
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.88	12.88
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47
	KOCREF 36 REIT <sup>2</sup>	Korea	21.01	21.01
	KOCREF 41 REIT <sup>3</sup>	Korea	26.47	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Kiwoom Milestone Private REIT No.16 <sup>4</sup>	Korea	45.45	45.50
	Cheongna Medipolis PFV Co., Ltd. <sup>5,6</sup>	Korea	56.74	56.74
	INNODIS Co., Ltd. <sup>1</sup>	Korea	19.64	19.60
	SJ BIO MED Co., Ltd. <sup>1</sup>	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	23.04	23.13
	KORAMCO Europe Private REIT	Germany	51.35	51.35
	3-2 Fund <sup>7</sup>			
Joint ventures	Starfield Suwon Inc.	Korea	50.00	50.00
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>8</sup>	Korea	-	18.95
	KORAMCO Amsa PFV Co., Ltd. <sup>9</sup>	Korea	-	17.84

<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>Because the percentage of ownership increased due to the disproportionate capital decrease for the year ended December 31, 2021, the Group has acquired its significant influence in the invested company. The Group has reclassified its holdings as an investment in associates.

<sup>3</sup>Because the percentage of ownership increased due to the disproportionate capital decrease for the six-month period ended June 30, 2022, the Group has acquired its significant influence on the invested company. The Group has reclassified its holdings as an investment in associates.

<sup>4</sup>It is reclassified as an investment in associates since the Group reassessed that it has significant influence over the invested company for the year ended December 31, 2021.

<sup>5</sup>Due to an establishment of capital investment for the year ended December 31, 2021, the Group has acquired its significant influence in the invested company. The Group has classified its holdings as an investment in associates.

<sup>6</sup>The Group classified such holdings as an investment in associates since decisions on significant financial, operating policies of the invested company are to be made with more than three fourths of Board of Directors in accordance with investment agreement.

<sup>7</sup>It is classified as an investment in joint ventures since decisions about the significant financial and operating policies of the invested company cannot be made without unanimous consent of the parties that control the arrangement collectively.

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<sup>8</sup>Since sales contract was made for the year ended December 31, 2021, it is reclassified as asset held for sale. Also, it is sold to the third party for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

<sup>9</sup> The Group has reclassified its holdings as assets held for sale following the resolution of dissolution made at shareholders' meeting. Also, it is liquidated for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

(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 six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022				June 30, 2021			
		Sales and other revenue		Purchase and other expenses		Sales and other revenue		Purchase and other expenses	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Associates	KOCREF 36 REIT	₩ 600	600	₩ -	-	₩ -	-	₩ -	-
	KOCREF 41 REIT	822	822	-	-	-	-	-	-
	Kiwoom Milestone Private REIT No. 16	-	793	-	-	-	-	-	-
	INNODIS Co., Ltd.	-	-	96	530	-	-	354	624
Joint ventures	Starfield Suwon, Inc.	-	-	-	68	-	-	-	-
	KORAMCO Europe Private REIT 3-2 Fund	648	648	-	-	630	630	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	-	-	-	18	-	-
Total		₩ 2,070	2,863	₩ 96	598	₩ 630	648	₩ 354	624

(c) Account balances of receivables and payables with related parties as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022		December 31, 2021	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No. 1	₩ -	₩ -	₩ 481	₩ -
	INNODIS Co., Ltd.	-	35	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
Total		₩ -	₩ 35	₩ 499	₩ -

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(d) Fund transactions with related parties for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022		June 30, 2021	
		Equity investment	Equity recovery	Equity investment	Equity recovery
Associates	KOCREF 41 REIT	₩ 29,489	₩ 12,279	₩ -	₩ -
Joint ventures	Starfield Suwon Inc. <sup>1</sup>	-	-	15,000	-
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>2</sup>	-	24,353	-	-
	KORAMCO Amsa PFV Co., Ltd. <sup>3</sup>	-	1,749	-	-
	Total	₩ 29,489	₩ 38,381	₩ 15,000	₩ -

<sup>1</sup>The Group decided to acquire 900,000 shares (₩45,000 million) of Starfield Suwon Inc. through the board of directors on May 12, 2021. 300,000 shares (₩15,000 million) were acquired in May 2021, and 600,000 shares (₩30,000 million) were acquired in August 2021.

<sup>2</sup>Since sales contract was made for the year ended December 31, 2021, it is reclassified as asset held for sale. Also, it is sold to the third party for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

<sup>3</sup>The Group has reclassified its holdings as assets held for sale following the resolution of dissolution made at shareholders' meeting. Also, it is liquidated for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

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

(f) The Group is currently operating Starfield Suwon Inc. 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) The Group has entered into a contribution agreement for equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the limit of ₩101,000 million. As of June 30, 2022, the outstanding amount of the contribution is ₩83,978 million, and the contribution will be made by the payment date for land purchase and sale agreement for the relevant business. Also, the equity shares shall not be transferred without approval of all shareholders and Incheon Free Economic Zone.

(h) Upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc., unanimous consent of the other shareholders is required.

(i) 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.

(j) The Group has a joint disposal right to require other investors to dispose their holdings under the same conditions at the disposal of the shares of Mastern No.144 PFV Co., Ltd. Also, when shareholders other than the Group dispose of shares by obtaining approval from Board of Directors and at Shareholders Meeting, the Group has a pre-emptive right to purchase such shares under the condition notified by other shareholders. However, the pre-emptive right to purchase shares are not required, and the other investors delegates their right for disposal to the Group.

(k) Key management personnel compensation for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
Short-term and long-term employee benefits	₩	9,950	₩	11,732
Retirement benefits		1,209		1,218
Total	₩	11,159	₩	12,950

**22. 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 management 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 variable interest rate liabilities of the Group as of June 30, 2022, 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 loss 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 June 30, 2022 and December 31, 2021, 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.

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



(d) The carrying amounts of each category of financial instruments as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021
Financial assets:			
Financial assets fair value through profit or loss <sup>1</sup>	₩ 1,429,288	₩	1,683,359
Financial assets fair value through other comprehensive income or loss	200,436		228,398
Derivative assets	-		580
Financial assets measured at amortized cost			
Cash and cash equivalents <sup>1</sup>	820,217		533,412
Other financial assets	436,037		466,058
Trade and other receivables	1,459,237		1,107,501
Long-term deposits	1,464,336		1,250,468
Subtotal	4,179,827		3,357,439
Total financial assets	₩ 5,809,551	₩	5,269,776
Financial liabilities:			
Derivative liabilities	₩ 14,551	₩	908
Financial liabilities measured at amortized cost			
Short-term borrowings	78,768		75,433
Current portion of long-term borrowings	15,356		2,166
Long-term borrowings	49,704		53,195
Trade and other payables	746,245		603,833
Lease liabilities	34,262		36,558
Liabilities for non-controlling interests	12,008		18,317
Subtotal	936,343		789,502
Total financial liabilities	₩ 950,894	₩	790,410

<sup>1</sup>As of June 30, 2022, money market trust worth ₩356,841 million (December 31, 2021: ₩413,159 million) included in cash equivalents are classified as 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:

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

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



The fair value measurements classified by fair value hierarchy as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	Carrying amount	June 30, 2022		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 1,429,288	₩ -	₩ 1,114,013	₩ 315,275
Fair value through other comprehensive income or loss	200,436	193,707	-	6,729
Total financial assets	₩ 1,629,724	₩ 193,707	₩ 1,114,013	₩ 322,004
Derivative liabilities	₩ 14,551	₩ -	₩ 14,551	₩ -

<sup>1</sup>As of June 30, 2022, money market trust worth ₩356,841 million included in cash equivalents are classified as the financial assets measured at fair value through profit or loss.

(in millions of Korean won)

	Carrying amount	December 31, 2021		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 1,683,359	₩ -	₩ 1,395,963	₩ 287,396
Fair value through other comprehensive income or loss	228,398	196,312	-	32,086
Derivative assets	580	-	580	-
Total financial assets	₩ 1,912,337	₩ 196,312	₩ 1,396,543	₩ 319,482
Derivative liabilities	₩ 908	₩ -	₩ 908	₩ -

<sup>1</sup>As of December 31, 2021, money market trust worth ₩413,159 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There is no movement between levels of the fair value hierarchy for the six-month periods ended June 30, 2022 and 2021.

As of June 30, 2022 and December 31, 2021, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income of 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.



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The changes in Level 3 fair value for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)		June 30, 2022	June 30, 2021
Beginning balance	₩	319,482	₩ 282,226
Acquisition		29,362	41,142
Disposal		(269)	(20,058)
Transfers		(28,300)	-
Changes in fair value		1,729	5,294
Ending balance	₩	322,004	₩ 308,604

(f) Net gain or loss by category of financial instruments for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)		June 30, 2022					
		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	₩ - ₩	-	-	-	10,982	-	10,982
Dividend income		6,810	7,635	-	-	-	14,445
Gain or loss on valuation		7,312	-	(28,961)	-	-	(21,649)
Loss on disposal		-	(10,300)	-	-	-	(10,300)
Interest expense		-	-	-	-	(15,911)	(15,911)
Reversal of impairment loss		-	-	-	146	-	146
Gain on lease contract adjustments		-	-	-	-	124	124
Total	₩	14,122	₩ (2,665)	₩ (28,961)	₩ 11,128	₩ (15,787)	₩ (22,163)
Other comprehensive income(loss) before tax:							
Net change in fair value	₩ - ₩	-	4,538	-	-	-	4,538

(in millions of Korean won)		June 30, 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	₩ - ₩	-	-	-	6,619	-	6,619
Dividend income		6,824	7,920	-	-	-	14,744
Gain or loss on valuation		10,390	-	(11,138)	-	-	(748)
Interest expense		-	-	-	-	(4,462)	(4,462)
Impairment loss		-	-	-	(7,831)	-	(7,831)
Gain on lease contract adjustments		-	-	-	-	95	95
Total	₩	17,214	₩ 7,920	₩ (11,138)	₩ (1,212)	₩ (4,367)	₩ 8,417
Other comprehensive income(loss) before tax:							
Net change in fair value	₩ - ₩	-	28,911	-	-	-	28,911

**23. Contingent Liabilities and Commitments**

## (a) Litigation cases

As of June 30, 2022, the Group has 22 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩76,433 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of June 30, 2022, on the consolidated financial statements of the Group.

## (b) Commitments with financial institutions

Major commitments of the Group with financial institutions as of June 30, 2022 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	110,300
Derivatives trading <sup>1</sup>	KB Kookmin Bank and four others	USD	338,500
Trade receivables factoring agreement	Hana Bank	KRW	5,000
Others	Korea Development Bank and five others	KRW	215,262
	Hana Bank Bahrain branch	USD	4,500

<sup>1</sup>Derivatives are composed of foreign exchange forward contracts and are held for trading as of June 30, 2022.

As of June 30, 2022, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 118,550 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes etc.

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2022 and 2021 (Unaudited)



### (c) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Group as of June 30, 2022 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	465,870	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	9,595	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,640	Escrow deposit guarantee
Liberty Mutual and two others	USD	407	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 June 30, 2022, KT&G USA Corporation is being provided with a payment guarantee from the Federal Insurance Company (Executed amount: nil) for import clearance. The Group has a recourse responsibility up to a limit of USD 125,000 thousand to the Federal Insurance Company and others.

As of June 30, 2022, KT&G Taiwan Corporation is being provided with a payment guarantee from the Citi Bank Taiwan (Executed amount: nil) for import clearance. The Group has a recourse responsibility up to a limit of TWD 200,000 thousand to the Citi Bank Taiwan.

Payment guarantees provided by the Group for other parties as of June 30, 2022 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon hwaseo prugio briel	Shinhan Bank	₩ 76,720	₩ 39,031	Loan guarantee for the intermediate payment of off-plan sales construction

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 (see Note 13).

# KT&G Corporation and Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued June 30, 2022 and 2021 (Unaudited)



Assets pledged as collateral as of June 30, 2022 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 69,681	₩ 12,709	₩ 27,600	KB Kookmin Bank and one other	Current portion of long-term and long term borrowings
	17,135	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	31,144	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment property	478,933	26,152	28,269	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	81,787	48,000	57,600	KB Kookmin bank and one other	Short-term borrowings
Other financial assets	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Investments in associates and joint ventures	5,306	90,000	5,306	Hyundai Marine & Fire Insurance Co., Ltd & NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd.
Total	₩ 694,893	₩ 190,458	₩ 156,082		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of June 30, 2022 are as follows:

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

As of June 30, 2022, other than explained above, 11 notes and 2 cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for these bills.

Restricted financial assets as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		June 30, 2022	December 31, 2021
Other financial assets	Establishment of a pledge to guarantee real estate development	₩ 10,310	₩ 10,310
	Establishment of a pledge for leasehold	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Security deposits for checking accounts, etc.	439	55
Cash and cash equivalents	Establishment of a pledge to savings	1,680	1,680
Total		₩ 113,026	₩ 112,642

(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 ₩1,464,336 million as of June 30, 2022 (As of December 31, 2021: ₩1,250,468 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 six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩143,358 million as of June 30, 2022 (As of December 31, 2021: ₩103,841 million) and ₩31,382 million as of June 30, 2022 (As of December 31, 2021: ₩20,564 million), respectively.

As of June 30, 2022, 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 June 30, 2022, there is a capital call agreement for overseas real estate funds invested by the Group. However, the Group expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

The Group has entered into an investment agreement for the debt instruments of Smilegate-Newdeal fund and others with the limit of ₩23,000 million in total. As of June 30, 2022, the outstanding contribution amounts to ₩4,858 million, and the detailed schedule for contribution is not determined.

The Group has entered into a contribution agreement for equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the limit of ₩101,000 million. As of June 30, 2022, the outstanding amount of the contribution is ₩83,978 million, and the contribution will be made by the payment date for land purchase and sale agreement for the relevant business. Also, the equity shares shall not be transferred without approval of all shareholders and Incheon Free Economic Zone.

Upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc., unanimous consent of the other shareholders is required.

The Group has a joint disposal right to require other investors to dispose their holdings under the same conditions at the disposal of the shares of Mastern No.144 PFV Co., Ltd. Also, when shareholders other than the Group dispose of shares by obtaining approval from Board of Directors and at Shareholders Meeting, the Group has a pre-emptive right to purchase such shares under the condition notified by other shareholders. However, the pre-emptive right to purchase shares are not required, and the other investors delegates their right for disposal to the Group.

As of June 30, 2022, 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 prugio briciel. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Engineering Guarantee Insurance Cooperative in connection with the construction in Suwon.

As of June 30, 2022, the Group and KT&G USA Corporation received an order from the US Department of Justice (DOJ) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US and the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of June 30, 2022.

The spread of Covid-19 has a significant impact on the domestic and international economies. This may have a negative impact on productivity decline, sales decrease or delay, and collection of existing receivables, which might subsequently make negative impact on the financial position and financial performance of the Group. The ultimate impact of changes in uncertainty due to Covid-19 on Group's business, financial position and financial performance is unpredictable as of June 30, 2022.

The Group is engaged in manufacturing and selling tobacco in Russia. As of June 30, 2022, the U.S. and others impose economic sanctions on Russia including restriction on SWIFT international payment network, and the ultimate outcome of the impact that such sanctions may have on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of June 30, 2022.

# KT&G Corporation and Subsidiaries

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### 24. Cash Flows

Cash generated from operations for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Profit for the six-month period ended June 30	₩ 602,221	₩ 519,004
Operating profit from continuing operations	608,034	511,374
Operating profit (loss) from discontinued operation	(5,813)	7,630
Adjustments:		
Employee welfare	2,971	8,619
Retirement benefits	24,968	29,121
Loss on valuation or obsolescence of inventories	320	1,972
Depreciation	102,073	100,733
Amortization	8,687	7,102
Loss (reversal) in impairment of trade and other receivables	(146)	7,831
Loss on foreign currency translation	21,103	10,855
Loss on valuation of derivatives	28,961	11,856
Loss on disposal of property, plant and equipment	455	416
Loss on impairment of property, plant and equipment	511	-
Loss on disposal of intangible assets	378	-
Loss on impairment of intangible assets	91	103
Loss on disposal of investment property	-	63
Loss on disposal of assets held for sale	1,217	298
Other expenses, etc.	2,581	1,461
Finance cost	47,268	10,568
Income tax expense	268,201	202,669
Gain on foreign currency translation	(198,125)	(57,600)
Gain on valuation of derivatives	-	(718)
Gain on disposal of property, plant and equipment	(48)	(1,780)
Reversal in impairment of property, plant and equipment	-	(74)
Gain on disposal of investment property	-	(30)
Gain on disposal of assets held-for-sale	(34,088)	-
Gain on disposal of investments in associates and joint ventures	-	(122)
Other income, etc.	(2,662)	(1,094)
Finance income	(53,796)	(37,858)
Decrease (increase) of investments in associates and joint ventures due to share of net gain/loss	(14,792)	912
Changes in working capital:		
Increase in trade and other receivables	(258,726)	(180,313)
Decrease (increase) in derivatives	(14,738)	3,486
Decrease in inventories	188,233	67,143
Decrease in accrued tobacco excise and other taxes	112,326	44,757
Increase in advance payments	(85,633)	(78,645)
Decrease (increase) in prepaid expenses	12,468	(22,042)
Increase in trade and other payables	107,334	70,959
Increase (decrease) in advance receipts	5,065	(23,439)
Decrease in tobacco excise and other taxes payable	(11,276)	(42,577)
Decrease in provision for site restoration	(9)	(4,890)
Decrease in net defined benefit liabilities	(822)	(11,176)
Cash generated from operations	₩ 862,571	₩ 637,570

**25. Discontinued Operations**

For the year ended December 31, 2021, The Group has discontinued KT&G USA Corporation business as the Group determines that it is necessary to conduct a review of the entire global business strategy including a review of the feasibility of the US business due to intensifying regulations over tobacco and growing competition in the market.

The relevant segment was not classified as discontinued operations as of June 30, 2021. The comparative statements of other comprehensive income are restated to present separated discontinued operations from continuing operations.

**(a) Profit or loss from discontinued operations**

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Revenue <sup>1</sup>	₩ 3,199	₩ 124,450
Expenses <sup>2</sup>	(9,012)	(114,023)
Profit (loss) on discontinued operation, before tax	(5,813)	10,427
Income tax expense	-	(2,796)
Profit (loss) on discontinued operation, after tax	(5,813)	7,631
Exchange differences on translating foreign operations	(2,504)	1,135
Total comprehensive income (loss) on discontinued operation	₩ (8,317)	₩ 8,766

<sup>1</sup>The revenue includes finance income and other income.

<sup>2</sup>The expenses include finance costs and other expenses.

Profit or loss from discontinued operations for the six-month periods ended June 30, 2022 and 2021 are entirely attributed to owners of the Parent Company.

**(b) Cash flows from discontinued operations**

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Cash flows from operating activities	₩ (13,941)	₩ (6,750)
Cash flows from investing activities	248	(70)
Cash flows from financing activities	(556)	(890)
Effect of exchange rate fluctuation on cash and cash equivalents	2,233	928
Total cash flow	₩ (12,016)	₩ (6,782)