



KT&G Corporation

Separate Financial Statements
For the year ended December 31, 2022
(With the independent auditor's report)

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

The Shareholders and Board of Directors KT&G Corporation

Opinion

We have audited the accompanying separate financial statements of KT&G Corporation (the "Company"), which comprise the separate statement of financial position as of December 31, 2022, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year ended, and notes to the separate financial statements, including a summary of significant accounting policies.

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

We have also audited, in accordance with the Korean Standards on Auditing("KSA"), the internal control over financial reporting of the Company as of December 31, 2022, based on 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting', and our report dated March 6, 2023, expressed an unqualified opinion.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment in carrying amount of Investments in subsidiaries

As described in Notes 3 and 11 to the separate financial statements, the Company assesses if there is any indication of impairment for investments in subsidiaries at the end of each reporting period. The Company performs an impairment assessment in accordance with KIFRS 1036 *Impairment of Assets* for investments in subsidiaries for which there are indications of impairment, and recognizes impairment loss when the estimated recoverable amount is less than the carrying amount.

The Company engaged independent external experts to assess the impairment of investments in subsidiaries. In determining the recoverable amounts of investments in subsidiaries, the Company used the value-in use model reflecting financial forecasts and residual values for the next five years or the fair value model at the fair value of the investments in subsidiaries less costs of disposal.

As described in Note 11, considering that the size of the investments in subsidiaries subject to the impairment assessment is significant, and involves management's significant assumptions in determining the valuation method to be applied to measure the recoverable amounts, business plan and discount rates used for estimating value in use, and fair values of assets and liabilities used for estimating fair value. Thus, we identified the impairment assessment of investments in subsidiaries as significant risk that requires auditor attention.

In particular, Cosmocos Co., Ltd., Sang Sang Stay Co., Ltd., and KT&G Tutun Mamuleri Manabe Ticare A.S. require significant auditor attention considering the quantitative significance of the investments in subsidiaries and recent financial performance of the Company. Therefore, we identified the impairment assesment of the investments in subsidiaries as a key audit matter.

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

- We obtained an understanding of the process and internal controls related to the impairment assessment of investments in subsidiaries.
- We tasted the effectiveness of the design and operation of controls over the impairment assessment of investments in subsidiaries.
- We evaluated the objectivity and competence of independent external experts used by the Company.
- We evaluated mathematical accuracy of the estimate of recoverable amounts of investments in subsidiaries subject to the impairment assessment conducted by the Company.
- We evaluated the estimated recoverable amounts of investments in subsidiaries subject to the impariment assessment conducted by the Company and checked whether the valuation methodology and estimation used in the prior period is consistent with that used in the current period through inquiry and assessment of the estimation.
- We evaluated the adjustments to the fair value assessment of assets and liabilities of investments in subsidiaries subject to the impairment assessment conducted by the Company.
- We evaluated the appraisal method used for appraisal of non-financial assets included investments in subsidiaries and estimated value resulting from the appraisal through the use of the auditor's experts.

Other Matter

The separate financial statements of the Company as of and for the year ended December 31, 2021 were audited by Samil PricewaterhouseCoopers whose report dated March 18, 2022 expressed an unqualified opinion thereon.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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



March 6, 2023

<p>This report is effective as of March 6, 2023, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying separated financial statements and may result in modifications to this report.</p>
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KT&G Corporation

Separate Financial Statements

As of and for the years ended December 31, 2022 and 2021

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

Bok-in Baek
Chief Executive Officer
KT&G Corporation

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KT&G Corporation
Separate Statements of Financial Position
As of December 31, 2022 and 2021



(in Korean won)

	Notes	December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents	5, 32, 33	₩ 939,549,506,970	₩ 590,603,139,764
Current other financial assets	5, 32, 33, 34	138,540,300,000	332,200,000,000
Current financial assets measured at fair value through profit or loss	6, 32, 33	393,106,179,920	965,384,441,544
Trade and other receivables	7, 25, 31, 32	1,299,941,217,472	788,803,379,227
Derivative assets	32, 34	23,069,310,564	580,339,743
Inventories	8	1,123,002,529,599	924,901,908,672
Refund assets and others	20	774,756,934	1,549,159,785
Accrued tobacco excise and other taxes		171,162,062,610	307,592,828,809
Advance payments		532,167,358	71,669,672,717
Prepaid expenses		6,784,143,597	10,813,947,699
Assets held for sale	15, 31	-	14,900,507,758
Total current assets		4,096,462,175,024	4,008,999,325,718
Non-current assets			
Long-term other financial assets	5, 32, 34	42,409,642,939	8,707,220,000
Long-term deposits in MSA Escrow Fund	32, 34	1,437,130,373,415	1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	6, 32	313,603,030,687	298,480,561,239
Long-term trade and other receivables	7, 31, 32	136,915,925,866	127,671,062,526
Long-term financial assets measured at fair value through other comprehensive income or loss	9, 32	159,228,150,120	203,172,444,191
Investments in associates and joint ventures	10, 31, 34	265,895,497,220	237,986,101,620
Investments in subsidiaries	11, 31, 34	1,230,060,147,705	1,201,395,995,281
Property, plant and equipment	12, 31	1,177,839,389,576	1,128,957,038,458
Intangible assets	13	122,485,433,151	97,363,311,045
Investment properties	14, 34	1,029,216,878,876	1,128,470,409,577
Right-of-use assets	16, 31	25,640,239,743	22,643,611,457
Long-term prepaid expenses		5,738,434,892	6,962,631,226
Deferred income tax assets	29	34,826,052,342	49,238,252,507
Net defined benefit assets	19	79,453,887,466	11,135,956,233
Total non-current assets		6,060,443,083,998	5,772,652,105,403
Total assets		₩ 10,156,905,259,022	₩ 9,781,651,431,121
Liabilities			
Current liabilities			
Short-term borrowings	17, 32, 33, 34, 35	₩ 113,402,621	₩ 588,570,275
Trade and other payables	18, 31, 32	1,225,737,342,674	776,356,232,986
Current lease liabilities	31, 32, 35	7,006,566,187	7,343,536,299
Derivative liabilities	32, 34	-	907,708,348
Advance receipts	25	13,191,400,626	13,104,141,586
Current refund liabilities and provisions	20, 34	9,647,020,723	9,903,555,310
Current income tax liabilities	29	189,920,724,171	210,773,719,060
Tobacco excise and other taxes payables		592,076,394,448	696,436,408,096
Total current liabilities		2,037,692,851,450	1,715,413,871,960
Non-current liabilities			
Long-term trade and other payables	18, 19, 31, 32	45,486,196,725	45,879,579,619
Long-term lease liabilities	31, 32, 35	17,333,148,601	14,876,074,384
Long-term advance receipts	25	960,666,324	4,148,654,673
Long-term refund liabilities and provisions	20, 34	1,828,062,531	1,218,175,670
Total non-current liabilities		65,608,074,181	66,122,484,346
Total liabilities		₩ 2,103,300,925,631	₩ 1,781,536,356,306

KT&G Corporation
Separate Statements of Financial Position, Continued
As of December 31, 2022 and 2021



(in Korean won)

	Notes	December 31, 2022	December 31, 2021
Equity			
Share capital	21	₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus	21	3,582,160,908	3,582,160,908
Treasury shares	22	(1,236,932,914,379)	(879,981,829,569)
Gain on sale of treasury shares	22	528,894,053,906	528,894,053,906
Reserves	23	6,814,100,369,559	6,515,544,653,691
Retained earnings	24	989,001,178,397	877,116,550,879
Total equity		₩ <u>8,053,604,333,391</u>	₩ <u>8,000,115,074,815</u>
Total liabilities and equity		₩ <u>10,156,905,259,022</u>	₩ <u>9,781,651,431,121</u>

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

KT&G Corporation
Separate Statements of Comprehensive Income
For the years ended December 31, 2022 and 2021



(in Korean won)	Notes	2022	2021
Sales	4, 25, 31 ₩	3,694,358,039,272 ₩	3,490,455,807,608 ₩
Manufacture of tobacco		3,088,093,765,554	2,752,009,088,503
Real estate		470,456,422,483	647,203,267,762
Exports of leaf tobacco and others		<u>135,807,851,235</u>	<u>91,243,451,343</u>
Cost of sales	26, 31	(1,776,312,314,128)	(1,590,203,573,600)
Manufacture of tobacco		(1,423,015,326,275)	(1,190,314,946,021)
Real estate		(244,689,808,671)	(327,741,741,075)
Exports of leaf tobacco and others		<u>(108,607,179,182)</u>	<u>(72,146,886,504)</u>
Gross profit		1,918,045,725,144	1,900,252,234,008
Selling, general and administrative expenses	26, 31	<u>(797,751,739,011)</u>	<u>(816,828,245,814)</u>
Operating profit		1,120,293,986,133	1,083,423,988,194
Other income	27, 31	292,185,868,272	168,213,113,517
Other expense	27, 31	(193,399,918,512)	(104,940,242,792)
Finance income	28, 31, 32	151,615,191,967	71,322,275,280
Finance costs	28, 31, 32	<u>(54,733,515,641)</u>	<u>(15,217,240,423)</u>
Profit before income tax		1,315,961,612,219	1,202,801,893,776
Income tax expense	29	<u>(357,921,627,137)</u>	<u>(349,857,719,118)</u>
Profit for the year	₩	<u>958,039,985,082</u>	₩ <u>852,944,174,658</u>
Other comprehensive income (loss) for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	19 ₩	39,406,313,915 ₩	25,015,632,253 ₩
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	9, 32	<u>(11,102,325,211)</u>	<u>12,160,444,363</u>
		<u>28,303,988,704</u>	<u>37,176,076,616</u>
Total comprehensive income for the year	₩	<u>986,343,973,786</u>	₩ <u>890,120,251,274</u>
Earnings per share			
Basic and diluted earnings per share	30 ₩	<u>8,007</u>	₩ <u>6,894</u>

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

Separate Statements of Changes in Equity
For the years ended December 31, 2022 and 2021

(in Korean won)

Balance as of January 1, 2021

Total comprehensive income (loss) for the year:

Profit for the year

Other comprehensive income (loss) for the year :

Re-measurements of net defined benefit liabilities

Gain on valuation of financial assets measured at fair value

through other comprehensive income or loss

Transfer from gain on disposal of financial assets measured at

fair value through other comprehensive income or loss

to retained earnings

Total comprehensive income (loss) for the year

Transactions with owners of the Company:

Dividends

Transfer to other reserves

Acquisition of treasury shares

Balance as of December 31, 2021

Balance as of January 1, 2022

Total comprehensive income (loss) for the year:

Profit for the year

Other comprehensive income (loss) for the year :

Re-measurements of net defined benefit liabilities

Loss on valuation of financial assets measured at fair value

through other comprehensive income or loss

Transfer from gain on disposal of financial assets measured at

fair value through other comprehensive income or loss

to retained earnings

Total comprehensive income (loss) for the year

Transactions with owners of the Company:

Dividends

Transfer to other reserve

Acquisition of treasury shares

Balance as of December 31, 2022

	Share capital	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserves	Retained earnings	Total equity
W	954,959,485,000	W 3,582,160,908	W (531,618,093,579)	W 528,894,053,906	W 6,037,903,146,578	W 1,060,221,437,118	W 8,053,942,189,931
Profit for the year	-	-	-	-	-	852,944,174,658	852,944,174,658
Other comprehensive income (loss) for the year :							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	25,015,632,253	25,015,632,253
Gain on valuation of financial assets measured at fair value	-	-	-	-	12,160,444,363	-	12,160,444,363
through other comprehensive income or loss	-	-	-	-	-	-	-
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	-	-	-
to retained earnings	-	-	-	-	843,256,032	(843,256,032)	-
Total comprehensive income (loss) for the year	-	-	-	-	13,003,700,395	24,172,376,221	37,176,076,616
Transactions with owners of the Company:					13,003,700,395	877,116,550,879	890,120,251,274
Dividends	-	-	-	-	-	-	-
Transfer to other reserves	-	-	-	-	464,637,806,718	(464,637,806,718)	(595,583,630,400)
Acquisition of treasury shares	-	-	(348,363,735,990)	-	-	-	(348,363,735,990)
Balance as of December 31, 2021	W 954,959,485,000	W 3,582,160,908	W (879,981,829,569)	W 528,894,053,906	W 6,515,544,653,691	W 877,116,550,879	W 8,000,115,074,815
Balance as of January 1, 2022	W 954,959,485,000	W 3,582,160,908	W (879,981,829,569)	W 528,894,053,906	W 6,515,544,653,691	W 877,116,550,879	W 8,000,115,074,815
Total comprehensive income (loss) for the year:							
Profit for the year	-	-	-	-	-	958,039,985,082	958,039,985,082
Other comprehensive income (loss) for the year :							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	39,406,313,915	39,406,313,915
Loss on valuation of financial assets measured at fair value	-	-	-	-	(11,102,325,211)	-	(11,102,325,211)
through other comprehensive income or loss	-	-	-	-	-	-	-
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	8,445,120,600	(8,445,120,600)	-
to retained earnings	-	-	-	-	(2,657,204,611)	30,961,193,315	28,303,988,704
Total comprehensive income (loss) for the year	-	-	-	-	(2,657,204,611)	989,001,178,397	986,343,973,786
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	-
Acquisition of treasury shares	-	-	(356,951,084,810)	-	-	-	(356,951,084,810)
Balance as of December 31, 2022	W 954,959,485,000	W 3,582,160,908	W (1,236,932,914,379)	W 528,894,053,906	W 6,814,100,369,559	W 989,001,178,397	W 8,053,604,333,391

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

KT&G Corporation
Separate Statements of Cash Flows
For the years ended December 31, 2022 and 2021



<i>(in Korean won)</i>	Notes	2022	2021
Net cash flows provided by operating activities		₩ 822,519,619,816	₩ 1,103,678,444,553
Cash generated from operations	35	1,197,748,158,800	1,481,600,690,337
Income taxes paid		(375,228,538,984)	(377,922,245,784)
Net cash flows provided by (used in) investing activities		470,356,895,657	(635,132,982,127)
Interest received		19,562,698,619	6,123,211,563
Dividends received		32,262,458,120	28,651,214,644
Decrease in other financial assets		381,560,000,000	200,596,920,000
Decrease in current financial assets measured at fair value through profit or loss		660,747,206,416	157,635,467
Decrease in long-term financial assets measured at fair value through profit or loss		2,029,674,601	20,602,082,570
Decrease in financial assets measured at fair value through other comprehensive income or loss		7,200,000,000	15,894,789,350
Decrease in long-term deposits in MSA Escrow Fund		-	460,542,059
Disposal of property, plant and equipment		3,785,319,917	8,063,743,585
Disposal of intangible assets		300,000,000	-
Disposal of investment properties		2,276,634,830	440,084,055
Disposal of assets held for sale		62,696,234,432	551,597,722
Disposal of investments in associates		42,881,601,172	-
Collection of loans		16,636,989,984	17,885,199,414
Collection of guarantee deposits		-	2,373,668,634
Increase in other financial assets		(221,607,761,678)	(202,366,920,000)
Increase in financial assets measured at fair value through profit or loss		(19,038,832,337)	(41,742,688,463)
Increase in long-term financial assets measured at fair value through profit or loss		(64,701,050,384)	(79,232,000,459)
Increase in financial assets measured at fair value through other comprehensive income or loss		(2,999,982,000)	(2,999,969,580)
Increase in long-term deposits in MSA Escrow Fund		(96,519,616,890)	(249,059,995,339)
Acquisition of property, plant and equipment		(128,933,637,444)	(136,134,424,211)
Acquisition of intangible assets		(36,825,673,100)	(38,273,672,075)
Acquisition of investment properties		(19,957,758,102)	(24,240,664,066)
Acquisition of investments in associates and joint ventures		(33,988,895,600)	(79,786,091,620)
Acquisition of investments in subsidiaries		(49,456,759,500)	(70,371,877,500)
Increase in loans		(86,199,095,049)	(12,604,396,405)
Increase in guarantee deposits		(1,352,860,350)	(120,971,472)
Net cash flows used in financing activities		(941,345,332,118)	(954,153,562,201)
Dividends payment		(575,903,630,400)	(595,583,630,400)
Interest paid		(460,590,772)	(690,937,774)
Repayment of lease liabilities		(8,049,111,067)	(9,515,258,037)
Acquisition of treasury shares		(356,951,084,810)	(348,363,735,990)
Proceeds in short-term borrowings		90,019,084,931	-
Repayment in short-term borrowings		(90,000,000,000)	-
Net increase (decrease) in cash and cash equivalents		351,531,183,355	(485,608,099,775)
Cash and cash equivalents at the beginning of the year		590,603,139,764	1,076,113,853,748
Effect of exchange rate fluctuation on cash and cash equivalents		(2,584,816,149)	97,385,791
Cash and cash equivalents at the end of the year		₩ 939,549,506,970	₩ 590,603,139,764

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

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2022, the Company has 3 manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 113 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Company’s major shareholders as of December 31, 2022, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	9,723,015	7.08
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,062,888	2.96
Treasury shares	21,012,574	15.30
Others	92,983,535	67.73
Total	137,292,497	100.00

2. Significant Accounting Policies

2.1 Basis of Preparation

The separate financial statements of the Company have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea. The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

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

- certain financial assets and financial liabilities (including derivatives);
- assets held for sale measured at fair value less costs of disposal; and
- defined benefit plan and plan assets measured at fair value.

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

2.2 Changes in Accounting Policies and Disclosures

(1) New and amended standards and interpretations

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022, and these amendments and interpretations do not have a significant impact on the separate 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 that contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous.

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

(b) Amendments to KIFRS 1103 Business Combinations – Reference to the Conceptual Framework

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version for determining whether assets and liabilities qualify for recognition but add an exception requiring entities to apply KIFRS 1037 or KIFRS 2121 for liabilities and contingent Liabilities within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.

(c) Amendments to KIFRS 1016 Property, Plant and Equipment – Proceeds before intended use

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes 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 as a first-time adopters

The amendments permit a subsidiary that elects to apply paragraph D16 (1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported in the Parent's financial statements, based on the Parent's date of transition to KIFRS.

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

The amendments clarify 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 remove the requirement in paragraph 22 of KIFRS 1041, on exclusion of cash flows for taxation when measuring the fair value of assets that are within the scope of KIFRS 1041 *Agriculture*.

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

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below.

(a) Amendments to KIFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments in compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(b) KIFRS 1117 Insurance Contract

KIFRS 1117 *Insurance Contracts* replaces KIFRS 1104 *Insurance Contracts*. This standard requires entities to estimate future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This standard is effective for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied KIFRS 1109 *Financial Instruments* on or before the date it first applies KIFRS 1117.

(c) Amendments to KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments are applicable for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

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

(d) Amendments to KIFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(e) Amendments to KIFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exception under KIFRS 1012, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are applicable for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(f) Amendments to KIFRS 1001 Presentation of Financial Statements - Disclosure of financial liabilities with condition to adjust exercise price

The amendments require disclosure of carrying amount of financial liabilities and gains or losses related thereto, if all or part of the financial instrument with exercise price that is adjusted depending on the issuer's share price change is classified as financial liability. The amendments should be applied for annual periods beginning on or after January 1 2023, and earlier application is permitted.

The Company is currently assessing the impact of the amendments on the separate financial statements.

2.3 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the separate financial statements are consistent with those of the separate financial statements for the year ended December 31, 2021, except for the changes due to the application of amendment and enactments of standards described in Note 2.2 and the ones described below.

(1) Operating Segments

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

(2) Investments in Subsidiaries, Associates and Joint Ventures

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

(3) Property, Plant and Equipment

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

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

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

2.3 Significant Accounting Policies (cont'd)

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

	<u>Estimated useful lives (years)</u>
Land	Indefinite
Buildings	10 - 60
Structures	10 - 40
Machinery	10 - 12
Vehicles	4
Tools	4
Equipment	4
Others	1 – 5, or indefinite

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

(4) Borrowing Costs

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

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

2.3 Significant Accounting Policies (cont'd)

(5) Government Subsidies

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

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

(6) Intangible Assets

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

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

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

	<u>Estimated useful lives (years)</u>
Industrial property rights	10 - 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	4

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

2.3 Significant Accounting Policies (cont'd)

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

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

(7) Investment Properties

Property held for earning rentals or benefiting from capital appreciation is classified as investment properties. Investment properties are initially measured at its cost including transaction costs incurred at the acquisition date. Subsequently, investment properties are carried at depreciated cost less any accumulated impairment losses.

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

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

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

2.3 Significant Accounting Policies (cont'd)

(8) Assets Held for Sale

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

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

(9) Inventories

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

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

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

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

2.3 Significant Accounting Policies (cont'd)

(10) Impairment of Non-Financial Assets

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

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

(11) Financial Assets (Other than Derivative Instruments)

(a) Classification

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

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

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

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

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

2.3 Significant Accounting Policies (cont'd)

(b) Measurement

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

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

- Debt instruments

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

A. Financial assets measured at amortized cost

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

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

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

2.3 Significant Accounting Policies (cont'd)

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

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

- Equity instruments

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

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

(c) Impairment

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

(d) Recognition and derecognition

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

2.3 Significant Accounting Policies (cont'd)

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

(e) Offsetting of financial instruments

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

(12) Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

2.3 Significant Accounting Policies (cont'd)

(13) Derivative Instruments

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

(14) Cash and Cash Equivalents

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

(15) Employee Benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

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

(c) Retirement benefits: Defined contribution plans

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

2.3 Significant Accounting Policies (cont'd)

(d) Retirement benefits: Defined benefit plans

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

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

(e) Termination benefits

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

(16) Refund liabilities and provisions

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

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

2.3 Significant Accounting Policies (cont'd)

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

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

(17) Paid-in capital

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

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

(18) Revenue recognition

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

(a) Sales of goods

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

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

2.3 Significant Accounting Policies (cont'd)

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

(b) Rendering of services

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

(c) Sale of real estate

The Company sells residential real estate according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Company has the right to claim for enforceable payment with regard to work performed up to that point. Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management has deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with KIFRS 1115.

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

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

(d) Lease of real estate

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

2.3 Significant Accounting Policies (cont'd)

(19) Finance income and finance cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method.

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

(20) Income tax expense

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

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

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

Deferred income tax is recognized as the expected income tax effect when the carrying amount of the asset or liability is recovered or settled for temporary differences arising from the difference between the tax base and the carrying amount of assets and liabilities. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

2.3 Significant Accounting Policies (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis.

(21) Functional and presentation currency

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

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

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

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

(22) Earnings per share

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

2.3 Significant Accounting Policies (cont'd)

(23) Lease

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

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

The Company determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In determining the lease term and assessing the length of the non-cancellable period of a lease, the Company applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

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

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

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

2.3 Significant Accounting Policies (cont'd)

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

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

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

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

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

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

(24) Emission rights

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

(25) Going concern

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

2.3 Significant Accounting Policies (cont'd)

(26) Approval of Financial Statements

The separate financial statements of the Company have been approved by the Board of Directors on February 9, 2023 and may be modified and re-approved at the Annual General Meeting of Shareholders, if any.

3. Critical Accounting Estimates and Assumptions

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

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

(1) Impairment of investments in subsidiaries

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

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

(2) Total construction revenue and total construction cost

(a) *Uncertainty of total contract revenue estimates*

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

3. Critical Accounting Estimates and Assumptions (cont'd)

(b) Estimated total construction cost

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

(3) COVID-19

Significant accounting estimates and assumptions applied in the preparation of the separate financial statements can be adjusted depending on changes in the uncertainty from Coronavirus disease 2019 ("COVID-19"). Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot be determined currently.

4. Operating Segment

The Company obtains revenue by transferring goods and services over a period or at a point in time in the major business lines. The categories of major business lines are consistent with the revenue disclosure information per reporting segment in accordance with KIFRS 1108.

(in millions of Korean won)

(in millions of Korean won)				2022	2021	
Revenue recognized at a point in time:						
Sales of tobacco/merchandise and service revenue	Korea	Wholesale and retail	\	2,121,702	\	1,961,259
		Direct sales		3,469		3,272
	Export	Wholesale and retail		962,923		787,478
Sales of semifinished tobacco products/raw materials and others	Korea	Direct sales		407		1,231
	Export	Direct sales		135,401		90,013
Subtotal				3,223,902		2,843,253
Revenue recognized over time:						
Sales and rental of real estate	Korea	Sales		386,550		569,691
	Korea	Rental		83,906		77,512
Subtotal				470,456		647,203
Total			\	3,694,358	\	3,490,456

5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2022		December 31, 2021	
Cash on hand	\	4	\	4
Demand deposits		281,640		181,876
Money market trust		337,906		408,723
Other cash and cash equivalents		320,000		-
Total	\	<u>939,550</u>	\	<u>590,603</u>

(b) Details of other financial assets as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Time deposits	\ 138,540	\ 2,403	\ 292,200	\ 8,707
Certificate of Deposit	-	-	40,000	-
Company stock	-	40,007	-	-
Total	\ <u>138,540</u>	\ <u>42,410</u>	\ <u>332,200</u>	\ <u>8,707</u>

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

Details of financial assets measured at fair value through profit or loss as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Money market trust	\ 349,984	\ 5,600	\ 965,362	\ 17,442
Beneficiary certificate	43,122	308,003	22	281,039
Total	\ <u>393,106</u>	\ <u>313,603</u>	\ <u>965,384</u>	\ <u>298,481</u>

7. Trade and Other Receivables

(a) Details of trade and other receivables as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,065,807	₩ 36,529	₩ 701,749	₩ 37,470
Loans	78,465	50,512	23,629	51,545
Other receivables	120,629	10,197	30,573	13,981
Guarantee deposits	23,290	37,806	29,316	20,158
Accrued income	11,750	1,872	3,536	4,517
Total	₩ 1,299,941	₩ 136,916	₩ 788,803	₩ 127,671

(b) Details of allowance for doubtful accounts for trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,378,601	₩ 261,723	₩ 912,089	₩ 215,901
Allowances:				
Trade receivables	(70,546)	(87,988)	(121,786)	(57,153)
Other receivables	(8,114)	(36,819)	(1,500)	(31,077)
Subtotal	(78,660)	(124,807)	(123,286)	(88,230)
Net trade and other receivables	₩ 1,299,941	₩ 136,916	₩ 788,803	₩ 127,671

(c) Changes in allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	₩ 211,516	₩ 143,948
Impairment loss (reversal of impairment loss)	(8,049)	67,580
Write off, etc.	-	(12)
Ending balance	₩ 203,467	₩ 211,516

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

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8. Inventories

(a) Details of inventories as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 24,145	₩ (1,825)	₩ 22,320	₩ 15,559	₩ (1,100)	₩ 14,459
Finished goods	132,967	(10,264)	122,703	98,723	(12,271)	86,452
Half-finished goods	40,790	(988)	39,802	18,821	(1,876)	16,945
Work in progress	5,400	-	5,400	3,048	-	3,048
Raw materials	666,967	(268)	666,699	669,478	-	669,478
Materials	40,094	(6,302)	33,792	38,036	(6,760)	31,276
Supplies	49,188	-	49,188	47,772	-	47,772
By-products	5,140	-	5,140	6,531	-	6,531
Buildings under construction ¹	61,597	-	61,597	5,926	-	5,926
Completed buildings	1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate ¹	62,906	-	62,906	3,673	-	3,673
Goods in transit	52,093	(127)	51,966	36,216	-	36,216
Total	₩ 1,142,777	₩ (19,774)	₩ 1,123,003	₩ 946,909	₩ (22,007)	₩ 924,902

¹Include ₩714 million reclassified from property, plant and equipment and ₩80,807 million reclassified from investment properties (see Notes 12 and 14).

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Cost of sales:		
Loss (reversal) on valuation of inventories	\ (2,233)	\ 10,698
Loss on obsolescence of inventories	5,553	7,727
Total	\ 3,320	\ 18,425

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

(a) Details of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<u>December 31, 2022</u>	<u>December 31, 2021</u>
Listed:			
Oscotech Inc.	\	9,134	\ 19,325
Shinhan Financial Group Co., Ltd.		141,094	147,507
Innosys Corporation (Previously, U&I Coporation)		-	4,759
Subtotal		<u>150,228</u>	<u>171,591</u>
Unlisted		<u>9,000</u>	<u>31,581</u>
Total	\	<u>159,228</u>	\ <u>203,172</u>

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

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

(b) Changes in financial assets measured at fair value through other comprehensive income or loss for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	\ 203,172	\ 214,394
Acquisition	3,000	3,000
Changes in fair value	(14,444)	16,773
Disposal and reclassification	<u>(32,500)</u>	<u>(30,995)</u>
Ending balance	\ <u>159,228</u>	\ <u>203,172</u>

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10. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	December 31, 2022		December 31, 2021	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.53	₩ 1,830	12.88	₩ 1,830
	KORAMCO Banpo PFV Co., Ltd. ^{1,7}	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KORAMCO Amsa PFV Co., Ltd. ^{1,2}	Korea	Real estate investment, development and rental business	-	-	17.84	1,159
	KOCREF 36 REIT ⁸	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT ³	Korea	Real estate investment, development and rental business	26.47	39,568	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Kiwoom Milestone Private REIT No.16 ⁴	Korea	Real estate investment, development and rental business	-	-	45.50	15,000
	Cheongna Medipolis PFV Co., Ltd. ⁵	Korea	Real estate development and sales	56.74	17,022	56.74	17,022
	INNODIS Co., Ltd. ¹	Korea	Game, advertizing agency	19.64	55	19.60	55
	SJ BIO MED Co., Ltd. ¹	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	22.73	-	23.13	-
	Mirae Asset KT&G Investment Fund I	Korea	Investment in new growth industries, etc.	45.00	4,500	-	-
	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	Real estate rental business	51.35	18,500	51.35	18,500
Joint ventures	Starfield Suwon Inc.	Korea	Real estate development and rental business	50.00	144,500	50.00	144,500
	Total				₩ 265,895		₩ 237,986

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

²The Company has reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the current period, and the ownership was liquidated during the year ended December 31, 2022.

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

⁴The Company has reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Company determined it has a significant influence over the invested company; this ownership was sold during the year ended December 31, 2022.

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

⁵The Company has classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁶The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁷As of December 31, 2022, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan.

⁸The Company has reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2021.

The Company has acquired equity securities of the following companies during the year ended December 31, 2021, AndaStation Professional Investment Private REIT No.1 (18 billion shares for ₩17,764 million) and Cheongna Medipolis PFV Co., Ltd. (3,404,400 shares for ₩17,022 million), which are associates, and Starfield Suwon Inc. (900,000 shares for ₩45,000 million), which is a joint venture.

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

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

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

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11. Investments in subsidiaries

(a) Details of investments in subsidiaries as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Name of Entity	Location	Principal operation	December 31, 2022		December 31, 2021	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industrial Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	Manufacturing and selling tobaccos	99.99	31,415	99.99	-
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	-	100.00	-
Cosmocos Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. ¹	Singapore	Holding Company	100.00	163,104	100.00	163,104
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,162	99.99	1,162
SangSang Stay Inc.	Korea	Hotel business	100.00	2,068	100.00	4,819
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon Sangsang PFV. Inc.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	100.00	8,081
Mastern No.144 PFV Co., Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
Total				₩ 1,230,060		₩ 1,201,396

¹The Company has acquired additional 6,978,948 shares (₩25,291 million) of Renzoluc Pte., Ltd. during the year ended December 31, 2021. The percentage of ownership is 100.00% including preferred shares as of December 31, 2022 and 2021.

The 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.

Through the resolution of the board of directors on November 3, 2022, the Company has a plan to participate in KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.'s three rounds of shareholder allocation paid-in capital increase of USD 89,526 thousand from November 2022 to early 2024, the Company acquired 131,020,854 shares (₩49,457 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. through paid-in capital increase during the year ended December 31, 2022.

11. Investments in subsidiaries (cont'd)

(b) Impairment

The Company assesses whether there is an indication that investments in subsidiaries may be impaired. If any indication exists, the Company estimates the recoverable amount and performs an impairment test.

The Company has recognized impairment losses for its investment in subsidiaries where indications of impairment have been identified since the book value of net assets of the subsidiaries were lower than the book value of the investments in subsidiaries, due to the continuous accumulation of operating losses, etc. Details of such impairment losses recognized for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	2022	2021	Methods for evaluating recoverable amount
KT&G USA Corporation	₩ -	₩ 4,913	Fair value less costs to sell
SangSang Stay Inc.	2,751	7,221	Fair value less costs to sell
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	18,042	-	Fair value less costs to sell
Renzoluc Pte., Ltd.	-	11,021	Value in use
PT KT&G Indonesia	-	78	Value in use
Total	₩ 20,793	₩ 23,233	

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

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

During the year ended December 31, 2021, in relation to investments in subsidiaries which belong to the CGUs of the Indonesian tobacco business, the recoverable amount was measured as value in use. Future cash flows to measure value in use were estimated for the next five years based on the Company's past operating performance and future business plans, and subsequent cash flows were estimated by applying a 1% permanent growth rate.

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11. Investments in subsidiaries (cont'd)

The discount rate for measuring value in use is the weighted average cost of capital adjusted to reflect the risks specific to the asset. The discount rates used for measuring value in use for each subsidiary as of December 31, 2022 and 2021, respectively, are as follows:

<i>(in percentage)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Renzoluc Pte., Ltd.	-	14.80
PT KT&G Indonesia	-	

12. Property, Plant and Equipment

(a) Details of the carrying amount of property, plant and equipment as of December 31, 2022 and 2021, are as follows:

	<u>December 31, 2022</u>			<u>December 31, 2021</u>		
	<u>Acquisition cost</u>	<u>Accumulated depreciation and impairment</u>	<u>Carrying amount</u>	<u>Acquisition cost</u>	<u>Accumulated depreciation and impairment</u>	<u>Carrying amount</u>
Land	358,000	-	358,000	380,873	-	380,873
Buildings	659,042	(387,802)	271,240	673,410	(386,765)	286,645
Structures	35,441	(27,268)	8,173	37,541	(29,015)	8,526
Machinery	1,279,246	(915,057)	364,189	1,231,210	(873,495)	357,715
Vehicles	1,340	(1,210)	130	1,366	(1,222)	144
Tools	46,022	(32,881)	13,141	39,773	(30,084)	9,689
Equipment	111,070	(84,683)	26,387	114,963	(87,263)	27,700
Others	4,709	(350)	4,359	4,512	(351)	4,161
Construction in progress	132,220	-	132,220	53,504	-	53,504
Total	<u>2,627,090</u>	<u>(1,449,251)</u>	<u>1,177,839</u>	<u>2,537,152</u>	<u>(1,408,195)</u>	<u>1,128,957</u>

(b) Changes in property, plant and equipment for the years ended December 31, 2022 and 2021, are as follows:

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

¹Consists of ₩33,981 million of transfers to investment properties, ₩230 million of transfers to intangible assets, and ₩714 million of transfers to inventories (see Notes 8, 13 and 14) for the year ended December 31, 2022.

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

(in millions of Korean won)

	2021					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ¹	Ending balance
Land	364,085	-	(125)	-	16,913	380,873
Buildings	311,171	4,571	(144)	(21,354)	(7,599)	286,645
Structures	9,266	563	(81)	(1,591)	369	8,526
Machinery	323,438	9,892	(1,382)	(57,450)	83,217	357,715
Vehicles	120	104	-	(83)	3	144
Tools	8,242	4,734	(243)	(3,644)	600	9,689
Equipment	34,025	6,715	(313)	(13,983)	1,256	27,700
Others	4,555	-	(258)	(136)	-	4,161
Construction in progress	84,728	99,673	-	-	(130,897)	53,504
Total	1,139,630	126,252	(2,546)	(98,241)	(36,138)	1,128,957

¹Consists of ₩36,878 million of transfers to investment properties, ₩754 million of transfers from intangible assets, and ₩14 million of transfers to inventories (see Notes 13 and 14).

13. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Industrial property rights	₩ 13,879	₩ (870)	₩ 13,009	₩ 9,677	₩ (567)	₩ 9,110
Facility usage rights	30,739	-	30,739	30,521	-	30,521
Intangible assets under development	28,291	-	28,291	42,808	-	42,808
Other intangible assets	77,765	(27,319)	50,446	29,319	(14,395)	14,924
Total	₩ 150,674	₩ (28,189)	₩ 122,485	₩ 112,325	₩ (14,962)	₩ 97,363

(b) Changes in intangible assets for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

¹Consists of ₩230 million of transfers from property, plant and equipment (see Note 12).

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13. Intangible Assets (cont'd)

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹	Ending balance
Industrial property rights	4,232	1,665	(31)	(417)	(11)	3,672	9,110
Facility usage rights	28,425	1,290	-	-	-	806	30,521
Intangible assets under development	18,995	33,760	(2)	-	(305)	(9,640)	42,808
Other intangible assets	14,671	1,559	(85)	(6,435)	-	5,214	14,924
Total	66,323	38,274	(118)	(6,852)	(316)	52	97,363

¹Consists of ₩754 million of transfers to property, plant and equipment, and ₩806 million of transfers from prepaid expenses (see Note 12).

(c) Research and development expenditures recognized as expenses for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Cost of sales	264	561
Selling, general and administrative expenses	22,799	38,645
Total	23,063	39,206

(d) Individually significant intangible assets

Details of individually significant intangible assets as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	Useful life	December 31, 2022	December 31, 2021
SAP system development			
Intangible assets under development	-	8,839	23,765
Other intangible assets	4 years	36,185	-

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14. Investment Properties

(a) Details of carrying amount of investment properties as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 564,610	₩ -	₩ 564,610	₩ 618,528	₩ -	₩ 618,528
Buildings	725,620	(262,720)	462,900	661,750	(195,873)	465,877
Construction in progress	1,707	-	1,707	44,065	-	44,065
Total	₩ 1,291,937	₩ (262,720)	₩ 1,029,217	₩ 1,324,343	₩ (195,873)	₩ 1,128,470

(b) Changes in investment properties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

¹Consists of ₩80,807 million of transfers to inventories, ₩33,981 million of transfers from property, plant and equipment, and ₩22,647 million of transfers to assets held for sale (see Notes 8, 12 and 15).

(in millions of Korean won)

	2021					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ¹	Ending balance
Land	₩ 600,922	₩ -	₩ (2)	₩ -	₩ 17,608	₩ 618,528
Buildings	479,898	546	(537)	(26,084)	12,054	465,877
Construction in progress	20,369	23,696	-	-	-	44,065
Total	₩ 1,101,189	₩ 24,242	₩ (539)	₩ (26,084)	₩ 29,662	₩ 1,128,470

¹Consists of ₩36,878 million of transfers from property, plant and equipment, and ₩7,216 million of transfers to assets held for sale (see Notes 12 and 15).

14. Investment Properties (cont'd)

(c) Details of profit or loss recognized in relation to the investment properties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		<u>2022</u>		<u>2021</u>
Rental income	₩	83,906	₩	77,512
Operating expenses		(26,804)		(26,084)
Total	₩	<u>57,102</u>	₩	<u>51,428</u>

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		<u>December 31, 2022</u>			<u>December 31, 2021</u>	
		<u>Fair value</u>	<u>Carrying amount</u>		<u>Fair value</u>	<u>Carrying amount</u>
Land	\	1,575,559	\ 397,276	\	1,600,643	\ 565,965
Buildings		575,695	438,244		601,840	465,877
Total	\	<u>2,151,254</u>	<u>\ 835,520</u>	\	<u>2,202,483</u>	<u>\ 1,031,842</u>

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

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

(in millions of Korean won)

			<u>Carrying amount</u>		
	Type		<u>December 31, 2022</u>	<u>December 31, 2021</u>	Reason why fair value cannot be measured reliably
Hogye-dong development site	Land	\	124,575	\	- Demolition in progress
Ssangmun-dong development site	Land		1,495	1,495	Construction in progress
	Building		24,656	-	
	Construction in progress		-	26,183	
Mia-dong development site	Land		41,264	-	
	Construction in progress		717	-	
Donggwang-dong development site	Construction in progress		475	-	
Anyang-dong development site	Construction in progress		364	-	
Nokbeon-dong development site	Construction in progress		151	-	
Sangbong-dong development site	Land		-	51,067	
	Construction in progress		-	17,883	
Total	\		<u>193,697</u>	<u>\ 96,628</u>	

14. Investment Properties (cont'd)

(e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2022, variable lease payment that is based on an index or a rate was ₩2,597 million. Even though the Company is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment properties.

Details of future minimum lease payments that the Company expects to receive from operating lease contracts for the investment properties described above as of December 31, 2022, are as follows:

(in millions of Korean won)

	December 31, 2022			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	52,837	66,613	18,603	138,053

15. Assets Held for Sale

Changes in assets held for sale for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	14,901	2,000
Reclassification ¹	23,806	12,901
Disposal	(38,707)	-
Ending balance	-	14,901

¹Consists of ₩22,647 million of transfers from investment properties (2021: ₩7,216 million), and ₩1,159 million of transfers from investments in associates (2021: ₩5,685 million) (see Notes 10 and 14).

16. Right-of-use Assets

(a) Details of the carrying amount of right-of-use assets as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Buildings	\ 24,165	\ (5,166)	\ 18,999	\ 21,599	\ (7,242)	\ 14,357
Machinery	117	(59)	58	-	-	-
Vehicles	14,824	(8,241)	6,583	16,417	(8,130)	8,287
Total	\ 39,106	\ (13,466)	\ 25,640	\ 38,016	\ (15,372)	\ 22,644

(b) Changes in right-of-use assets for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

(in millions of Korean won)

	2021				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Buildings	\ 19,695	\ 1,513	\ (1,373)	\ (5,478)	\ 14,357
Machinery	65	-	-	(65)	-
Vehicles	9,287	3,519	208	(4,727)	8,287
Total	\ 29,047	\ 5,032	\ (1,165)	\ (10,270)	\ 22,644

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

(c) The amounts recognized on the separate statements of comprehensive income related to lease for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>		<u>2021</u>
Depreciation expense	\	9,116	\	10,270
Interest expense		400		691
Short-term lease expense		355		193
Lease payment for low-value assets		479		476
Variable lease expense		845		1,088
Loss on lease contract adjustments		2		294
Total	\	<u>11,197</u>	\	<u>13,012</u>

For the year ended December 31, 2022, total cash outflows related to lease is ₩10,127 million (2021: ₩11,964 million).

17. Borrowings

Details of short-term borrowings as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>Lender</u>		<u>December 31, 2022</u>		<u>December 31, 2021</u>
Overdraft	NH Nonghyup Bank	\	19	\	-
Consumer credit agreements ¹	NH Nonghyup Bank		75		437
	Hana Card		19		152
Subtotal			<u>94</u>		<u>589</u>
Total		\	<u>113</u>	\	<u>589</u>

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

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18. Trade and Other Payables

Details of trade and other payables as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Leasehold deposits received	\ 25,511	\ 19,996	\ 32,090	\ 16,891
Trade payables	152,816	-	16,217	-
Withholdings	4,962	-	4,617	-
Value-added deposit	168,710	-	176,633	-
Accrued expenses	188,461	25,490	163,590	28,286
Other payables	685,277	-	383,209	703
Total	\ 1,225,737	\ 45,486	\ 776,356	\ 45,880

19. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Defined benefit plans:		
Current service cost	\ 31,791	\ 34,013
Net interest on net defined benefit liabilities (assets)	(297)	840
Past service cost	4,084	-
Subtotal	35,578	34,853
Defined contribution plan:		
Contributions recognized as expense	5,190	5,086
Other long-term employee benefits:		
Current service cost, etc.	(645)	11,502
Termination benefits:		
Voluntary retirements, etc.	13,450	1,253
Total	\ 53,573	\ 52,694

19. Employee Benefits (cont'd)

(b) Changes in net defined benefit liabilities (assets) for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	\ (11,136) \	38,161
Current service cost	31,791	34,013
Past service cost	4,084	-
Net interest of net defined benefit liabilities (assets)	(297)	840
Remeasurment element of net defined benefit liabilities (assets) (before tax)	(53,614)	(34,504)
Payment amount	(2,481)	(3,446)
Payment of plan assets	(47,801)	(46,200)
Ending balance	\ <u>(79,454)</u> \	<u>(11,136)</u>
Consolidated statements of financial positions:		
Present value of defined benefit obligations	\ 353,822 \	388,559
Fair value of plan assets	(433,276)	(399,695)
Total	\ <u>(79,454)</u> \	<u>(11,136)</u>

(c) Changes in the present value of the defined benefit obligations for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	\ 388,559 \	396,703
Current service cost	31,791	34,013
Interest expense	9,661	8,522
Past service cost	4,084	-
Remeasurement element (before tax)	(55,504)	(35,516)
Payment amount	(24,769)	(15,163)
Ending balance	\ <u>353,822</u> \	<u>388,559</u>

19. Employee Benefits (cont'd)

(d) Changes in fair value of plan assets for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>		<u>2021</u>
Beginning balance	₩	399,695	₩	358,542
Interest income		9,958		7,682
Remeasurement element (before tax)		(1,890)		(1,012)
Payment amount		(22,288)		(11,717)
Payment of plan assets		47,801		46,200
Ending balance	₩	<u>433,276</u>	₩	<u>399,695</u>

The actual amount of interest income arising from plan assets for the years ended December 31, 2022 and 2021, is ₩8,069 million and ₩6,670 million, respectively.

(e) Changes in the present value of other long-term employee benefits for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>		<u>2021</u>
Beginning balance	₩	28,285	₩	20,807
Current service cost		3,366		2,814
Past service cost		112		8,821
Interest cost		707		475
Remeasurement element (before tax)		(4,830)		(608)
Payment amount		(2,150)		(4,024)
Ending balance	₩	<u>25,490</u>	₩	<u>28,285</u>

19. Employee Benefits (cont'd)

(f) Details of remeasurements recognized in other comprehensive income or loss for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ (422)	₩ 2,362
Changes in financial assumptions	64,465	30,379
Experience adjustments	(8,539)	2,775
Subtotal	<u>55,504</u>	<u>35,516</u>
Revenue (loss) from plan assets, excluding amounts included in net interest	(1,890)	(1,012)
Remeasurement element of net defined liabilities (assets) (before tax)	53,614	34,504
Tax effect	(14,208)	(9,488)
Remeasurement element of net defined liabilities (assets) (after tax)	<u>₩ 39,406</u>	<u>₩ 25,016</u>

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Regular deposits and cash equivalents	₩ 20,948	₩ 65,433
Principal and interest guarantee financial assets, etc.	<u>412,328</u>	<u>334,262</u>
Total	<u>₩ 433,276</u>	<u>₩ 399,695</u>

(h) The major assumptions used for actuarial evaluation as of December 31, 2022 and 2021, are as follows:

<i>(in percentage)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate	5.16	2.59
Expected wage increase rate	4.04	3.89

To calculate the present value of the defined benefit obligation, the Company decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2022.

19. Employee Benefits (cont'd)

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

<i>(in millions of Korean won)</i>	<u>Increase by 1%</u>	<u>Decrease by 1%</u>
Changes in discount rate	\ (21,322) \	24,151
Changes in expected wage increase rate	24,723	(22,167)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2022.

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

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

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2023 is ₩27,339 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2022 and 2021, are 6.73 years and 8.02 years, respectively.

The expected maturity analysis of undiscounted pension benefits as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>Less than 1 year</u>	<u>Between 1-2 years</u>	<u>Between 2-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2022	\ 37,986 \	45,964 \	145,069 \	905,124 \	1,134,143
December 31, 2021	30,535	37,670	127,171	848,407	1,043,783

20. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Provision for product warranty	4,172	-	4,915	-
Refund liabilities	5,197	1,592	4,588	938
Provision for site restoration	84	102	111	30
Provision for financial guarantee	-	134	21	250
Provision for greenhouse gases	194	-	269	-
Total	9,647	1,828	9,904	1,218

(b) Changes in refund liabilities and provisions for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

(in millions of Korean won)

	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,464	2,500	(2,049)	4,915
Refund liabilities	2,284	6,075	(2,833)	5,526
Provision for site restoration	8,807	67	(8,733)	141
Provision for financial guarantee	622	-	(351)	271
Provision for greenhouse gases	178	354	(263)	269
Total	16,355	8,996	(14,229)	11,122

(c) For returnable sales, the Company sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales and deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2022 amount to ₩775 million (as of December 31, 2021: ₩790 million).

20. Refund Liabilities and Provisions (cont'd)

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

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

(f) The Company's provision for financial guarantee is recognized by estimating the amount of joint guarantees for middle payment loan provided to the buyer related to the off-plan sales construction of Suwon Hwaseo.

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

21. Share Capital and Other Capital Surplus

There have been no changes to share capital and other capital surplus during the years ended December 31, 2022 and 2021. Details of share capital and other capital surplus as of December 31, 2022 and 2021, are as follows:

<i>(in shares and millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share <i>(in won)</i>	₩ 5,000	₩ 5,000
Issued	137,292,497 shares	137,292,497 shares
Share capital	954,959	954,959
Other capital surplus	3,582	3,582

As 53,699,400 shares of the Company was written off in profit there is a difference of ₩268,497 million between the total face value of the equity and the issued shares.

22. Treasury Shares and Gain on Disposal of Treasury Shares

(a) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2022 and 2021, are as follows:

<i>(in shares and millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of treasury shares	21,012,574 shares	17,312,574 shares
Treasury shares	₩ (1,236,933)	₩ (879,982)
Gain on disposal of treasury shares	528,894	528,894

(b) Changes in the number of treasury shares for the years ended December 31, 2022 and 2021, are as follows:

<i>(in shares)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	17,312,574	13,212,574
Acquisition of treasury shares	3,700,000	4,100,000
Ending balance	<u>21,012,574</u>	<u>17,312,574</u>

The Company has acquired 3,700,000 treasury shares (2021: 4,100,000 treasury shares) through a transaction on exchange during the year ended December 31, 2022.

23. Reserves

(a) Details of reserves as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Profit reserve	₩ 602,937	₩ 602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,564,595	5,263,383
Loss on valuation of financial assets at fair value through other comprehensive income or loss	(65,164)	(62,507)
Total	<u>₩ 6,814,100</u>	<u>₩ 6,515,545</u>

① Legal reserve

The commercial law stipulates that the Company shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders.

23. Reserves (cont'd)

As of the December 31, 2022 and 2021, the profit reserve set aside in excess of 50% of the Company's share capital is ₩125,457 million.

② Reserve for business rationalization

Until 2002, the Company had put the tax deduction amount under *Restriction on Special Taxation Act* as a reserve for business rationalization, which could only be used to preserve and transfer capital losses. However, *Restriction on Special Taxation Act* was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

③ Reserve for business expansion and other reserve

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

(b) Details of gain and loss on valuation of fair value through other comprehensive income or loss as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	₩ (88,659)	₩ (86,218)
Tax effect	23,495	23,711
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	₩ (65,164)	₩ (62,507)

24. Retained Earnings

(a) Changes in retained earnings for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Beginning balance	₩	877,117	₩	1,060,221
Dividends		(575,904)		(595,584)
Transfer to other reserve		(301,213)		(464,637)
Profit for the year		958,040		852,944
Transfer of loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		(8,445)		(843)
Remeasurements of net defined benefit liabilities (after tax)		39,406		25,016
Ending balance	₩	<u>989,001</u>	₩	<u>877,117</u>

(b) The appropriation of retained earnings for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Unappropriated retained earnings carried over from prior year	₩	-	₩	-
Profit for the year		958,040		852,944
Transfer of loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		(8,445)		(843)
Remeasurements of net defined benefit liabilities (after tax)		39,406		25,016
Retained earnings available for appropriation		<u>989,001</u>		<u>877,117</u>
Appropriation of retained earnings				
Dividends ¹ (Cash dividends (%)):		(581,400)		(575,904)
Ordinary share:				
2021: 4,800 (96%)				
2022: 5,000 (100%)				
Transfer to other reserve		(407,601)		(301,213)
Unappropriated retained earnings to be carried forward	₩	<u>-</u>	₩	<u>-</u>

¹The appropriation of retained earnings for the year end December 31, 2022 is expected to be appropriated at the shareholder's meeting on March 28, 2023. The appropriation date for the year ended December 31, 2021 was March 29, 2022.

25. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sales contracts for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

¹Excludes sales revenue of ₩4,208 million of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of December 31, 2022.

²Excludes the cumulative costs for common infrastructure, amounting to ₩102,090 million.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2021				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ¹
Suwon Hwaseo Park Prugio (Apartment)	June 2018	August 2021	100.00	1,212,711	1,212,711	1,212,154	300,169	535,019
Suwon Hwaseo Park Prugio (Efficiency apartment)	October 2018	August 2021	100.00	112,049	112,049	109,719	29,610	67,853
Suwon Hwaseo Park Prugio (Commercial facility)	January 2021	August 2021	100.00	60,443	60,443	57,262	57,262	16,590
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	32.61	791,406	750,989	244,875	182,650	110,105
Total				2,176,609	2,136,192	1,624,010	569,691	729,567

¹Excludes the cumulative costs for common infrastructure, amounting to ₩59,354 million.

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

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

(in millions of Korean won)

Construction project	December 31, 2022			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	₩ 626,691	₩ 375,778	₩ 252,461	₩ 1,548
ePyeonghansesang Daejeon Station Centum Vista	525	1,770	-	1,245
Total	₩ 627,216	₩ 377,548	₩ 252,461	₩ 2,793

(in millions of Korean won)

Construction project	December 31, 2021			
	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 Briciel	244,875	227,360	20,715	3,200
Total	₩ 1,624,010	₩ 1,592,146	₩ 36,405	₩ 4,541

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the year ended December 31, 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 December 31, 2022, and subject to change in the future.

26. Operating Expenses

(a) Details of expenses classified by nature, incurred for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Changes in inventories	\ (198,101)	\ 68,440
Raw materials etc. used and merchandise purchased	1,318,275	1,076,958
Salaries	427,738	414,129
Retirement and termination benefits	54,218	41,192
Depreciation	134,529	134,595
Amortization	13,938	6,852
Employee welfare	54,128	56,193
Advertising	94,684	100,676
Commissions	234,913	185,443
Other expenses	439,742	322,555
Total	\ 2,574,064	\ 2,407,033

(b) Details of selling, general and administrative expenses for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Salaries	₩ 295,739	₩ 281,400
Retirement and termination benefits	37,805	28,481
Employee welfare	36,828	40,863
Travel expenses	13,085	4,364
Communication cost	2,764	2,683
Utilities	12,041	10,824
Taxes and dues	26,253	24,000
Supplies	2,184	2,261
Rent	8,388	6,092
Depreciation	32,826	34,798
Amortization	13,814	6,826
Repairs and maintenance	6,571	7,327
Vehicles	3,652	3,510
Insurance	862	1,349
Commissions	179,178	137,712
Freight and custody	20,158	12,318
Conferences	2,789	1,902
Advertising	94,593	100,619
Education and training	3,565	3,173
Prizes and rewards	2,263	1,885
Research and development	22,799	38,645
Impairment loss (reversal of impairment loss) on trade receivables	(20,405)	65,796
Total	₩ 797,752	₩ 816,828

27. Other Income and Expense

(a) Details of other income for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Gain on foreign currency transaction \	75,879 \	34,718
Gain on foreign currency translation	107,686	119,222
Gain on valuation of derivatives	33,742	1,368
Reversal of impairment loss on other receivables	1,538	2,874
Gain on disposal of property, plant and equipment	4,436	1,775
Gain on disposal of investment property	1,901	30
Gain on lease contract adjustments	6	311
Gain on disposal of assets held for sale	32,030	-
Gain on disposal of investments in associates and joint ventures	19,962	-
Miscellaneous income	15,006	7,915
Total \	<u>292,186 \</u>	<u>168,213</u>

(b) Details of other expense for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Loss on foreign currency transaction \	19,800 \	5,713
Loss on foreign currency translation	42,244	711
Loss on valuation of derivatives	65,277	23,123
Loss on impairment of other receivables	13,894	4,658
Loss on disposal of property, plant and equipment	742	2,382
Loss on impairment of property, plant and equipment	766	-
Loss on disposal of intangible assets	76	25
Loss on impairment of intangible assets	139	316
Loss on disposal of investment property	731	128
Loss on impairment of investment property	21,928	-
Loss on disposal of assets held for sale	1,218	-
Loss on impairment of investments in subsidiaries	20,793	23,233
Loss on lease contract adjustments	4	17
Donations	5,235	40,178
Miscellaneous loss	553	4,456
Total \	<u>193,400 \</u>	<u>104,940</u>

28. Finance Income and Costs

(a) Details of finance income and costs for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Finance income:				
Interest income ¹	₩	30,084	₩	13,395
Dividend income		54,183		28,934
Gain on valuation of financial assets measured at fair value through profit or loss		67,348		28,993
Total finance income	₩	<u>151,615</u>	₩	<u>71,322</u>
Finance costs:				-
Interest expense	₩	1,966	₩	1,746
Loss on disposal of financial assets measured at fair value through other comprehensive income or loss		-		100
Loss on valuation of financial assets measured at fair value through profit or loss		42,468		13,371
Others		10,300		-
Total finance cost	₩	<u>54,734</u>	₩	<u>15,217</u>
Net finance income	₩	<u>96,881</u>	₩	<u>56,105</u>

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

(b) Details of interest income included in finance income for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Deposits	\	6,936	\	3,470
Trade and other receivables		8,051		7,657
Long-term deposits		15,097		2,268
Total	\	<u>30,084</u>	\	<u>13,395</u>

(c) Details of interest expense included in finance cost for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Trade and other payables	\	1,505	\	1,055
Lease liabilities		400		691
Loans		61		-
Total	\	<u>1,966</u>	\	<u>1,746</u>

29. Income Tax Expense and Deferred Tax Assets

(a) Details of income tax expense for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Current tax on profits for the year	355,222	379,976
Adjustments in respect of current income tax of previous years, etc.	(845)	(2,341)
Increase/decrease from temporary differences	3,545	(27,777)
Income tax expense	357,922	349,858

(b) Details of the relationship between income tax expense and accounting profit for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Profit before income tax expense	1,315,962	1,202,802
Tax rate (%)	26.71	26.64
Tax expense calculated at applicable rate	351,527	320,409
Adjustments:		
Non-taxable income	(865)	(738)
Expenses not deductible for tax purposes	1,527	1,335
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	7,069	6,312
Tax credit	(2,972)	(4,560)
Adjustments with respect to past income taxes	(845)	(2,341)
Effects of corporate earnings circulation tax	-	28,801
Others	2,481	639
Income tax expense	357,922	349,858
Average effective tax rate (%)	27.20	29.09

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

(c) Details of current and deferred tax related to items recognized outside profit or loss for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Deferred tax:		
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	\ 3,342	\ (4,932)
Remeasurement element of net defined benefit liabilities	(14,208)	(9,488)
Total	\ (10,866)	\ (14,420)

(d) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2022 and 2021, are as follows:

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

<i>(in millions of Korean won)</i>	2021			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income or loss	Ending balance
Accumulated depreciation	\ 10,437	\ 365	\ -	\ 10,802
Loss allowance	36,308	19,139	-	55,447
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	20,580	60	(4,932)	15,708
Accrued expenses	36,258	7,580	-	43,838
Defined benefit liabilities	6,099	(3,122)	(9,488)	(6,511)
Treasury shares	(9,411)	-	-	(9,411)
Investments in subsidiaries	(71,150)	-	-	(71,150)
Advanced depreciation provision	(10,004)	-	-	(10,004)
Others	16,764	3,755	-	20,519
Total	\ 35,881	\ 27,777	\ (14,420)	\ 49,238

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

(e) Temporary differences related to investment in subsidiaries etc. which are deductible (taxable) as of December 31, 2022 and 2021 are as follows. They have not been recognized as deferred tax assets (liabilities) since it does not seem probable in the foreseeable future that they will not be realized:

<i>(in millions of Korean won)</i>		<u>December 31, 2022</u>	<u>December 31, 2021</u>
Deductible temporary differences	\	419,767	\ 393,389
Taxable temporary differences		(280,078)	(269,346)
Total	\	<u>139,689</u>	<u>\ 124,043</u>

30. Earnings Per Share

(a) The relationship between EPS and accounting profit for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won, Korean won, and shares)</i>		<u>2022</u>	<u>2021</u>
Profit for the period attributable to owners of the Company	₩	958,040	₩ 852,944
Weighted average number of ordinary shares outstanding <i>(in shares)</i>		119,657,375	123,731,183
Basic and diluted EPS <i>(in Korean won)</i>		8,007	6,894

(b) The basis for calculating the weighted average number of ordinary shares outstanding for the years ended December 31, 2022 and 2021, are as follows:

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

<i>(in shares)</i>		<u>2021</u>		
	Date	Number of shares	Days (in days)	Weighted number of shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(13,212,574)	365	(4,822,589,510)
Acquisition of treasury shares	Nov. 5, etc. ~ Dec. 31	(4,100,000)	9~57	(127,290,000)
Total				<u>45,161,881,895</u>
Days in circulation <i>(in days)</i>				365
Weighted average number of ordinary shares outstanding <i>(Ordinary shares outstanding for the accumulated number of days / days in circulation)</i>				123,731,183

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30. Earnings Per Share (cont'd)

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

31. Related Parties

(a) Details of the Company's related parties as of December 31, 2022 and 2021, are as follows:

Type	Name of entity	Location	Percentage of ownership (%)					
			December 31, 2022			December 31, 2021		
			Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation	Korea	100.00	-	100.00	100.00	-	100.00
	Yungjin Pharm. Co., Ltd.	Korea	52.45	-	52.45	52.45	-	52.45
	Tae-A Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Türkiye	99.99	-	99.99	99.99	-	99.99
	Korea Tabacos do Brasil Ltda.	Brazil	99.99	-	99.99	99.99	-	99.99
	KT&G Pars	Iran	99.99	-	99.99	99.99	-	99.99
	KT&G Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00
	KT&G USA Corporation	USA	100.00	-	100.00	100.00	-	100.00
	Cosmocore Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56
	Renzoluc Pte., Ltd. ¹	Singapore	100.00	-	100.00	100.00	-	100.00
	PT KT&G Indonesia	Indonesia	99.99	-	99.99	99.99	-	99.99
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Global Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00
	Gwacheon Sangsang PFV, Inc.	Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation ²	Taiwan	100.00	-	100.00	100.00	-	100.00
	Master No. 144 PFV Co., Ltd. ²	Korea	92.50	-	92.50	92.50	-	92.50
	K&I HK Co., Ltd. ³	Hong kong	-	-	-	-	98.56	98.56
	K&I China Co., Ltd.	China	-	98.56	98.56	-	98.56	98.56
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00
	KGC Life&Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00
	Korean Red Ginseng Corp. Inc.	USA	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng Corp. Japan	Japan	-	100.00	100.00	-	100.00	100.00
	PT Trisakti Purwosari Makmur	Indonesia	-	99.99	99.99	-	99.99	99.99
	PT Nusantara Indah Makmur	Indonesia	-	99.96	99.96	-	99.99	99.99
Associates	LitePharmTech Co., Ltd. ⁴	Korea	12.53	-	12.53	12.88	-	12.88
	KORAMCO Banpo PFV Co., Ltd. ⁴	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Dongjak PFV Co., Ltd. ⁴	Korea	19.47	-	19.47	19.47	-	19.47
	KOCREF 36 REIT ⁵	Korea	21.01	-	21.01	21.01	-	21.01
	KOCREF 41 REIT ⁶	Korea	26.47	-	26.47	-	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	-	21.43	21.43	-	21.43
	Kiwom Milestone Private REIT No.16 ⁷	Korea	-	-	-	45.45	-	45.45
	Cheongna Medipolis PFV Co., Ltd. ^{2,8}	Korea	56.74	-	56.74	56.74	-	56.74
	INNODIS Co., Ltd. ⁴	Korea	19.64	-	19.64	19.60	-	19.60
	SJ BIO MED Co., Ltd. ⁴	Korea	14.39	-	14.39	14.39	-	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	22.73	-	22.73	23.13	-	23.13
	Mirae Asset KT&G Investment Fund I ⁹	Korea	45.00	-	45.00	-	-	-
	KORAMCO Europe Private REIT 3-2 Fund ¹⁰	Germany	51.35	-	51.35	51.35	-	51.35
Joint ventures	Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00
	KORAMCO Ocheon PFV Co., Ltd. ¹¹	Korea	-	-	-	18.95	-	18.95
Others	KORAMCO Amsa PFV Co., Ltd. ¹²	Korea	-	-	-	17.84	-	17.84

¹The Company has acquired additional 6,978,948 convertible preference shares of Renzoluc Pte., Ltd. during the year ended December 31, 2021. The percentage of ownership is 100.00% including preferred shares as of December 31, 2022 and 2021.

31. Related Parties (cont'd)

²The Company has established KT&G Taiwan Corporation, Mastern No.144 PFV Co., Ltd., and Cheongna Medipolis PFV Co., Ltd. by capital investment for the year ended December 31, 2021.

³ Since the entity was fully liquidated during the year ended December 31, 2022, it is excluded from related parties.

⁴The Company has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the invested company with its right to participate in the invested company's Board of Directors meetings in accordance with the agreement with shareholders.

⁵The Company has reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2021.

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

⁷The Company has reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Company determined it has a significant influence over the investee; this ownership was sold during the year ended December 31, 2022 and is therefore not included as a related party.

⁸The Company has classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁹The Company has acquired 45.00% of share in Mirae Asset KT&G Investment Fund I during the year ended December 31, 2022 and classified the ownership as investment in associates.

¹⁰The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

¹¹The Company has reclassified the ownership as assets held for sale as the Company has entered into a sales agreement during the year ended December 31, 2021 and as completion of sales to a third party during the year ended December 31, 2022 it is not included as a related parties.

¹²The Company has reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the year ended December 31, 2022, and as the ownership was liquidated during the year ended December 31, 2022 it is not included as a related parties.

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31. Related Parties (cont'd)

(b) The Company conducts transactions with related parties, such as sales of goods and provision of services. Details of transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

① Sales and other income

(in millions of Korean won)

Type	Name of entity	2022	2021
Subsidiaries	Korea Ginseng Corporation	11,252	8,635
	Yungjin Pharm. Co., Ltd.	616	343
	Tae-A Industrial Co., Ltd.	412	458
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	13,918	8,016
	Korea Tabacos do Brasil Ltda. ¹	4	4
	KT&G Rus L.L.C. ¹	54,935	34,536
	KT&G USA Corporation ¹	-	156,752
	Cosmococ Co., Ltd.	29	118
	PT KT&G Indonesia ¹	627	1,057
	SangSang Stay Inc.	4,872	4,801
	KT&G Global Rus L.L.C. ¹	249	224
	Gwacheon Sangsang PFV. Inc.	21,079	-
	KGCyebon Corporation	21	18
	KGC Life&Gin Co., Ltd.	329	351
	PT Trisakti Purwosari Makmur ¹	44,428	25,422
	KT&G Taiwan Corporation	6,124	-
Associates	KOCREF 36 REIT	1,200	2,070
	KOCREF 41 REIT	1,646	-
	AndaStation Professional Investment Private REIT No.1	954	481
	Kiwoom Milestone Private REIT No.16	1,399	1,212
	KORAMCO Europe Private REIT 3-2 Fund	1,298	1,260
Joint ventures	Starfield Suwon Inc.	-	615
	KORAMCO Ocheon PFV Co., Ltd.	-	18
Others	Total	165,392	246,391

¹Excludes impairment loss (reversal of impairment loss) of ₩(7,664) million (2021: ₩68,337 million) in relation to the related parties for the year ended December 31, 2022.

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31. Related Parties (cont'd)

② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	2022	2021
Subsidiaries	Korea Ginseng Corporation \	1,587 \	1,204
	Yungjin Pharm. Co., Ltd.	302	339
	Tae-A Industrial Co., Ltd.	32,632	25,290
	Korea Tabacos do Brasil Ltda.	340	180
	KT&G Rus L.L.C.	120	2
	Cosmococ Co., Ltd.	334	273
	SangSang Stay Inc.	251	154
	KGCyebon Corporation	1,572	175
	KGC Life&Gin Co., Ltd.	35	34
	PT Trisakti Purwosari Makmur	7	1
Associates	INNODIS Co., Ltd.	722	2,454
Joint ventures	Starfield Suwon Inc.	68	811
	Total \	37,970 \	30,917

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

(in millions of Korean won)

Type	Name of entity	December 31, 2022		December 31, 2021	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation \	14 \	2,210 \	- \	2,022
	Yungjin Pharm. Co., Ltd.	-	67	-	48
	Tae-A Industrial Co., Ltd.	-	4,492	-	4,400
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	46,130	-	49,596	-
	Korea Tabacos do Brasil Ltda. ^{1,2}	122	-	118	-
	KT&G Pars ^{1,2}	44,526	-	44,526	-
	KT&G Rus L.L.C. ¹	70,857	-	40,213	-
	KT&G USA Corporation ¹	53,094	317	53,094	297
	PT KT&G Indonesia ^{1,2}	26,296	-	28,745	-
	KT&G Global Rus L.L.C. ¹	167	-	254	-
	Gwacheon Sangsang PFV. Inc.	21,079	-	-	-
	KGCyebon Corporation	-	8,362	-	8,949
	KGC Life&Gin Co., Ltd.	-	115	-	135
	PT Trisakti Purwosari Makmur ^{1,2}	100,450	-	36,835	-
	KT&G Taiwan Corporation	4,380	-	-	-
Associates	AndaStation Professional Investment Private REIT No.1	481	-	481	-
	INNODIS Co., Ltd.	-	35	-	-
Joint ventures	Starfield Suwon Inc.	70	-	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
	Total \	367,666 \	15,598 \	253,880 \	15,851

¹Presented in total amount before deducting loss allowance of ₩137,742 million and ₩145,406 million as of December 31, 2022 and 2021.

²Includes loans to related parties.

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31. Related Parties (cont'd)

(d) Details of purchase and sale of property, plant and equipment, intangible assets (including assets held for sale), and right-of-use assets with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Type	Name of entity	2022		2021	
		Sale of property, plant and equipment		Purchase of property, plant and equipment	
Subsidiaries	KGCyebon Corporation	\	-	\	246
	PT Trisakti Purwosari Makmur		6,699		-
	KT&G Rus L.L.C.		5		-
	Total	\	6,704	\	246

(e) Details of fund transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Type	Name of entity	2022				2021		
		Equity investment	Loan of funds	Repayment of lease liabilities	Equity recovery	Equity investment	Repayment of lease liabilities	Repayment of a loan
Subsidiaries	KT&G Taiwan Corporation	\	-	\	-	\	8,081	\
	Master No.144 PFV Co., Ltd.		-		-		37,000	
	PT KT&G Indonesia		-		-		-	2,651
	KGCyebon Corporation		-	605	-		647	-
	PT Trisakti Purwosari Makmur		76,154		-		-	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	49,457	-	-	-	-	-	-
	KOCREF 41 REIT	29,489	-	-	12,279	-	-	-
Associates	AndaStation Professional Investment Private REIT No.1	-	-	-	-	17,764	-	-
	Cheongna Medipolis PFV Co., Ltd.	-	-	-	-	17,022	-	-
	Kiwom Milestone Private Placement Real Estate Investment Trust No.167	-	-	-	30,603	-	-	-
	Mirae Asset KT&G New Growth Investment Association No. 1	4,500	-	-	-	-	-	-
	Starfield Suwon, Inc	-	-	-	-	45,000	-	-
	KORAMCO Ocheon	-	-	-	24,353	-	-	-
	PFV Co., Ltd. ¹	-	-	-	1,749	-	-	-
Joint ventures	KORAMCO Amsa	-	-	-	-	-	-	-
	PFV Co., Ltd. ²	-	-	-	-	-	-	-
Others	Total	\	83,446	\	76,154	\	605	\
			68,984		124,867		647	2,651

¹The Company has reclassified the ownership as assets held for sale as the Company has entered into a sales agreement during the year ended December 31, 2021. Since the entity was completely sold to a third party during the year ended December 31, 2022, it is excluded from related parties.

²The Company has reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the year ended December 31, 2022. Since the entity was fully liquidated during the year ended December 31, 2022, it is excluded from related parties.

(f) As of December 31, 2022, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 150,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan (Note 34 (c)).

31. Related Parties (cont'd)

(g) For the year ended December 31, 2022, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, PT KT&G Indonesia, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., and Cosmocos Co., Ltd. to provide operating funds and other management-related business support.

(h) The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon's operation is approved. In the event that the Company or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

(i) The Company has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of December 31, 2022, the outstanding balance of the contribution is ₩83,978 million, and the contribution will be made until the related land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

(k) As of December 31, 2022, the Company has entered into a capital call agreement in relation to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

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

(m) The Company has entered into agreement to extend the maturity of loans to PT KT&G Indonesia worth at USD 20,750 thousand and loans to Korea Tabacos do Brasil Ltda. worth at ₩94 million, respectively during the year ended December 31, 2022.

31. Related Parties (cont'd)

(n) As of December 31, 2022, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for PF loan of KORAMCO Banpo PFV Co., Ltd. (see Notes 10 and 34 (c)).

(o) Key management personnel compensation for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Long (short)-term employee benefits	\ 19,631	\ 23,162
Retirement benefits	2,456	2,538
Total	\ <u>22,087</u>	\ <u>25,700</u>

32. Risk Management and Fair Value of Financial Instruments

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

(a) Market risk

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

① Currency risk

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

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

Details of the carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	\ 1,888,954	\ 76,585	\ 1,885,550	\ 16,521
IDR	6,156	-	1,857	-
EUR	1,600	43,076	29,148	2,733
Others	80,310	14,576	40,126	399
Total	\ 1,977,020	\ 134,237	\ 1,956,681	\ 19,653

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	\ 184,278	\ (184,278)	\ 193,703	\ (193,703)

② Price risk

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

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets measured at fair value through other comprehensive income or loss) as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	\ 5,029	\ (5,029)	\ 3,191	\ (3,191)

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

③ Interest rate risk

The Company is exposed to the risk of interest rate fluctuation related to its trade payables and other payables, and lease liabilities. The Company's management maintains an appropriate balance between the fixed and variable interest borrowing by regularly measuring the risk that the fair values or future cash flows of financial instruments may fluctuate due to the changes in market interest rate. The effect of interest rate change on fair values or future cash flows of financial liabilities is immaterial considering the volume of the variable interest rate liability as of December 31, 2022.

(b) Credit risk

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

Details of the carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalents (excluding cash on hand) ¹	601,641	181,876
Other financial assets	180,950	340,907
Financial assets measured at fair value through profit or loss ¹	1,044,615	1,672,588
Trade and other receivables	1,436,857	916,474
Long-term deposits	1,437,130	1,250,468
Derivative assets	23,069	580
Total	<u>4,724,262</u>	<u>4,362,893</u>

¹As of December 31, 2022, money market trust and others amounting to ₩337,906 million (2021: ₩408,723 million) included in cash equivalents are classified as financial assets measured at fair value through profit or loss.

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

(c) Liquidity risk

The Company is exposed to liquidity risk caused by difficulties in meeting its obligations related to financial liabilities that are settled by transferring financial assets such as cash. In order to manage liquidity risk, the Company's management establishes short and mid-to-long term financial management plans and continuously analyzes and reviews the budgeted and actual cash outflows, in order to counterpose the maturities of financial liabilities and assets. The Company's management deems the financial liabilities are redeemable by the cash flow from operating activities and cash inflows from financial assets.

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		December 31, 2022				
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	113	113	113	-	-	-
Trade and other payables	900,384	902,525	868,732	11,902	17,168	4,723
Lease liabilities	24,340	26,353	2,200	5,488	13,165	5,500
Total	924,837	928,991	871,045	17,390	30,333	10,223

(in millions of Korean won)

		December 31, 2021				
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	589	589	589	-	-	-
Trade and other payables	475,267	477,095	430,717	27,169	14,253	4,956
Derivative liabilities	908	908	908	-	-	-
Lease liabilities	22,220	23,598	2,049	5,302	9,997	6,250
Total	498,984	502,190	434,263	32,471	24,250	11,206

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

As of December 31, 2022, the Company provides joint-guarantees for middle payment loan provided to the buyer related to the real estate sales contract of Suwon Hwaseo Prugio (guarantee limit: ₩76,720 million, remaining contract maturity: 1 ~ 2 years) and has recognized a financial guarantee provision liability of ₩134 million (2021: ₩271 million) (see Notes 20 (f) and 34 (c)).

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

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

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

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Financial assets:		
Financial assets measured at fair value through profit or loss ¹	₩ 1,044,615	₩ 1,672,588
Financial assets measured at fair value through other comprehensive income or loss	159,228	203,172
Derivative assets	23,069	580
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	601,644	181,880
Other financial assets	180,950	340,907
Trade and other receivables	1,436,857	916,474
Long-term deposits	1,437,130	1,250,468
Subtotal	<u>3,656,581</u>	<u>2,689,729</u>
Total financial assets	₩ <u>4,883,493</u>	₩ <u>4,566,069</u>
Financial liabilities:		
Derivative liabilities	₩ -	₩ 908
Financial liabilities measured at amortized cost		
Short-term borrowings	113	589
Trade and other payables	900,384	475,267
Lease liabilities	24,340	22,220
Subtotal	<u>924,837</u>	<u>498,076</u>
Total financial liabilities	₩ <u>924,837</u>	₩ <u>498,984</u>

¹As of December 31, 2022, money market trust amounting to ₩337,906 million(2021: ₩408,723 million) included in cash equivalents is classified as financial assets measured at fair value through profit or loss.

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

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

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

Details of the fair value of financial instruments measured by each fair value hierarchy as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	Carrying amount	December 31, 2022		
		Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss ¹	₩ 1,044,615	₩ -	₩ 693,490	₩ 351,125
Financial assets measured at fair value through other comprehensive income or loss	159,228	150,228	-	9,000
Derivative assets	23,069	-	23,069	-
Total financial assets	₩ 1,226,912	₩ 150,228	₩ 716,559	₩ 360,125

¹As of December 31, 2022, money market trust amounting to ₩337,906 million included in cash equivalents is classified as 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
Financial assets measured at fair value through profit or loss ¹	₩ 1,672,588	₩ -	₩ 1,391,527	₩ 281,061
Financial assets measured at fair value through other comprehensive income or loss	203,172	171,591	-	31,581
Derivative assets	580	-	580	-
Total financial assets	₩ 1,876,340	₩ 171,591	₩ 1,392,107	₩ 312,642
Derivative liabilities	₩ 908	₩ -	₩ 908	₩ -

¹As of December 31, 2021, money market trust amounting to ₩408,723 million included in cash equivalents is classified as financial assets measured at fair value through profit or loss.

There is no movement between the levels of fair value hierarchy during the years ended December 31, 2022 and 2021.

As of December 31, 2022 and 2021, the fair value of investment trust equity security classified as financial assets measured at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and the discounted cash flow method, and was classified as Level 3 fair value based on the inputs used in the valuation technique.

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

The changes in Level 3 fair value for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	\ 312,642 \	277,264
Acquisition	84,464	82,232
Disposal	(18,578)	(36,582)
Transfers	(28,300)	(30,100)
Changes in fair value	9,897	19,828
Ending balance	\ 360,125 \	312,642

(f) Details of net gain or loss by each financial instruments category for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022				
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Profit for the period:					
Interest income	\ - \	-	-	30,084	-
Dividend income	16,440	8,818	-	-	-
Gain or loss on valuation	24,880	-	(31,535)	-	-
Gain or loss on disposal	-	(10,300)	-	-	2
Interest expense	-	-	-	-	(1,966)
Impairment reversal (loss)	-	-	-	8,049	-
Total	\ 41,320 \	(1,482)	(31,535)	38,133	(1,964)
Other comprehensive income (loss) before tax:					
Net change in fair value	\ - \	(14,444)	-	-	-

(in millions of Korean won)

	2021				
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Profit for the period:					
Interest income	\ - \	-	-	13,395	-
Dividend income	12,838	11,055	-	-	-
Gain or loss on valuation	15,622	-	(21,755)	-	-
Gain on disposal	-	-	-	-	311
Interest expense	-	-	-	-	(1,746)
Impairment reversal (loss)	-	-	-	(67,580)	-
Total	\ 28,460 \	11,055	(21,755)	(54,185)	(1,435)
Other comprehensive income (loss) before tax:					
Net change in fair value	\ - \	16,773	-	-	-

33. Capital Management

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

The Company manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous fiscal year. Details of the Company's capital structure as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total borrowings	113	589
Less: Cash and cash equivalents	(939,550)	(590,603)
Less: Current other financial assets	(138,540)	(332,200)
Less: Current financial instruments measured at fair value through profit or loss	(393,106)	(965,384)
Net assets	(1,471,083)	(1,887,598)
Total equity	8,053,604	8,000,115

34. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2022, the Company has 9 of pending litigations where the Company is the position of the defendant, and the litigation amounts amount to ₩60,530 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the separate financial statements of the Company as of December 31, 2022.

(b) Commitments with financial institutions

The Company's major arrangements with financial institutions as of December 31, 2022, are as follows:

<i>(in millions of Korean won or thousands of US dollars)</i>				
Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank	USD	100,000	82,791
Derivatives trading ¹	KB Kookmin Bank and four others	USD	334,500	37,081
Overdraft	NH Nonghyup Bank and two others	KRW	400,000	19

¹Derivatives consist of foreign exchange forward contracts and are held for trading as of December 31, 2022.

34. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2022, the Company has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 118,650 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	590,456	Housing distribution guarantee, etc
Seoul Guarantee Insurance	KRW	34,514	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,640	Escrow deposit guarantee
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of December 31, 2022, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 150,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Company to other parties as of December 31, 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 Briciel	Shinhan Bank	\ 76,720 \	52,530	Loan guarantee for the intermediate payment of off-plan sales construction

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

KT&G Corporation
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34. Contingent Liabilities and Commitments (cont'd)

Details of assets pledged as collaterals as of December 31, 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>Carrying amount</u>	<u>Debt amount</u>	<u>Collateralized amount</u>	<u>Collateral holder</u>	<u>Type</u>
Investment property	\ 475,603	\ 25,982	\ 28,010	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits / Establishment of lease contracts
Other financial assets	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	1,553	-	1,553	Korea Housing and Urban Guarantee Corporation	Collateral for unsecured site
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for lease hold deposits
Investments in associates	5,306	90,000	5,306	Hyundai Marine & Fire Insurance Co., Ltd., NH Bank	PF Loan Agreement by Koramco Banpo PFV Co., Ltd. ¹
Total	\ 493,369	\ 116,579	\ 45,776		

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

Details of restricted financial assets as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other financial assets	Establishment of a pledge for property development	\ 10,310	\ 10,310
	Collateral for unsecured site	1,553	1,553
	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Total	\ 112,460	\ 112,460

(d) Others

Each year, the Company deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Company inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Company, in whole, after 25 years from each date of deposit. The Company recognized ₩1,437,130 million in long-term deposits for MSA Escrow Fund as of December 31, 2022 (2021: ₩1,250,468 million), and they consist of T-Notes, T-bills, and demand deposits.

34. Contingent Liabilities and Commitments (cont'd)

The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon's operation is approved. In the event that the Company or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

As of December 31, 2022, the Company is in a capital call agreement in relations to the Company's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

The Company has entered into a capital contribution agreement in relations to the debt instruments of Smilegate-Newdeal fund, and etc., with the ceiling of ₩50,010 million in total. As of December 31, 2022, the outstanding balance of the contribution amount is ₩13,174 million, and the detailed timeline for contribution is yet to be determined.

The Company has entered into an optional contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of December 31, 2022, the outstanding balance of the contribution is ₩83,978 million, and the contribution will be made until the related land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

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

As of December 31, 2022, the Company is being provided with commitments to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (Suwon Hwaseo Prugio Briciel, etc.) proceed by the company.

The Company has obligated to return infrastructure such as roads and neighborhood parks to Suwon City for free related to infrastructure construction of Suwon Hwaseo Prugio Briciel.

34. Contingent Liabilities and Commitments (cont'd)

During the year ended December 31, 2022, the Company has reached agreement with Bando Engineering & Construction Co., Ltd. To resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, and the completion date of the construction shall be October 20, 2023 under the agreement. For promoting the construction, the Company also promised to pay ₩10 billion in advance to Bando Engineering & Construction Co., Ltd. until October 20, 2023.

For the year ended December 31, 2022, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, PT KT&G Indonesia, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., and Cosmococ Co., Ltd. to provide operating funds and other management-related business support.

As of December 31, 2022, the Company and KT&G USA Corporation received a notification from the US Department of Justice (DOJ) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of December 31, 2022.

The spread of Covid-19 has a significant impact on domestic and international economies. This may have a negative impact on productivity, sales, and collection of existing receivables, which might subsequently have an adverse impact on the financial position and financial performance of the Company.

The Company is engaged in manufacturing and selling tobacco in Russia. As of December 31, 2022, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Company's business in Russia and its financial position therein cannot be reasonably estimated as of December 31, 2022.

The Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalization of the global economy. Global Minimum Tax (Pillar Two) were released and they apply to Multinational Enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements. National Assembly of South Korea passed into law new Global Minimum Tax rules to align with the OECD BEPS Pillar Two in December 2022. The regulation will be included in the Adjustment of International Taxes Act and will be effective for fiscal years beginning on or after January 1, 2024. However, the Enforcement Decrees that provide further detail on the application of the legislation is not yet finalized as of December 31, 2022. In South Korea, Pillar Two legislation is not yet considered substantively enacted as of December 31, 2022 for financial reporting purposes. The Company therefore has not recognized any tax effect arising from the Global Minimum Tax in its separate financial statements as of December 31, 2022 and for the year then ended.

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35. Cash Flows

(a) Cash generated from operations for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022		2021
Profit for the year	₩	958,040	₩	852,944
Adjustments:				
Employee welfare		3,513		12,308
Retirement benefits		35,578		34,853
Loss on valuation or obsolescence of inventories		3,320		18,425
Depreciation		134,529		134,595
Amortization		13,938		6,852
Impairment loss (reversal of impairment loss) on trade and other receivables		(8,049)		67,580
Loss on foreign currency translation		42,244		711
Loss on valuation of derivatives		65,277		23,123
Loss on disposal of property, plant and equipment		742		2,382
Loss on impairment of property, plant and equipment		766		-
Loss on disposal of intangible assets		76		25
Loss on impairment of intangible assets		139		316
Loss on disposal of investment properties		731		128
Loss on disposal of assets held for sale		21,928		-
Loss on impairment of assets held for sale		1,218		-
Loss on impairment of investments in subsidiaries		20,793		23,233
Other expenses, etc.		6,079		8,272
Finance costs		54,734		15,217
Income tax expense		357,922		349,858
Gain on foreign currency translation		(107,686)		(119,222)
Gain on valuation of derivatives		(33,742)		(1,368)
Gain on disposal of property, plant and equipment		(4,436)		(1,775)
Gain on disposal of investment property		(1,901)		(30)
Gain on disposal of assets held for sale		(32,030)		-
Gain on disposal of investments in joint ventures		(19,962)		-
Other income, etc.		(7,451)		(6,912)
Finance income		(151,615)		(71,322)
Changes in working capital:				
Decrease (increase) in trade and other receivables		(433,226)		205,057
Increase in derivatives		(54,931)		(8,775)
Increase in inventories		(119,140)		(19,205)
Decrease (increase) in accrued tobacco excise and other taxes		136,431		(69,847)
Decrease in advance payments		9,047		9
Decrease in prepaid expenses		5,180		7,519
Increase in trade and other payables		452,213		44,413
Increase (decrease) in advance receipts		2,232		(85,103)
Increase (decrease) in tobacco excise and other taxes payable		(104,360)		115,720
Decrease in provision for site restoration		(111)		(8,734)
Decrease in net defined benefit liabilities		(50,282)		(49,646)
Cash generated from operations	₩	<u>1,197,748</u>	₩	<u>1,481,601</u>

35. Cash Flows (cont'd)

(b) Material transactions without cash inflow and outflow for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Reclassification of property, plant and equipment to investment properties	33,981	36,878
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	96,591	140,525
Increase (decrease) of other payables related to the acquisition of property, plant and equipment	56,219	(9,882)
Reclassification of investment properties to inventories	80,807	-

(c) Changes in liabilities due to financing activities for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

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

(in millions of Korean won)

	<u>2021</u>			
	<u>Beginning balance</u>	<u>Cash flow from financing activities</u>	<u>Others</u>	<u>Ending balance</u>
Dividends payable	-	(595,584)	595,584	-
Short-term borrowings	817	-	(228)	589
Lease liabilities	28,897	(10,206)	3,529	22,220
Total	<u>29,714</u>	<u>(605,790)</u>	<u>598,885</u>	<u>22,809</u>

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

36. Events After the Reporting Period

The Company completed paid-in capital increase with considerations paid to existing shareholders by offering new shares worth at ₩30 billion in its subsidiary, SangSang Stay Inc. on January 17, 2023.

The Company signed a funding affirmation letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., and Cosmococ Co., Ltd. in February 2023, promising to provide operating funds and other administrative supports. In addition, in the same period, the Company lent ₩4.5 billion to improve the cash flow of Youngjin Pharm. Co., Ltd., a subsidiary, and signed a funding affirmation letter for its other subsidiary, Renzoluc Pte., Ltd. to support the repayment.

The Company lent USD 44,502 to its subsidiary, PT Trisakti Purwosari Makur in February 2023 for construction of new factory and infrastructure in Indonesia according to the resolution of its Board of Directors made on January 18, 2023.

The Company newly established KT&G Global Kazakhstan LLP and completed an initial investment worth ay USD 15,000 thousand in January 2023.

After the Company newly established KT&G Kazakhstan LLP, its Board of Directors made resolution on January 18, 2023 to invest additional contributions worth at USD 53,664 thousand through three times of investment in January, June, and September 2023. Accordingly, the Company invested an additional contribution worth at USD 26,833 thousand in KT&G Kazakhstan LLP in February 2023.

The Company has a plan to conduct paid-in capital increase with considerations paid to existing shareholders by offering new shares worth at USD 19,724 thousand in its subsidiary, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. in February 2023.

PT Trisakti Purwosari Makmur, the sub-subsidiary of the Company, has merged with PT KT&G Indonesia, the other subsidiary of the Company on January 1, 2023 as the merger date for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia.

Daejeon Regional Tax Office has been conducting a tax investigation against the Company for the taxation period from 2018 to 2020 since January 26, 2023. Since it is uncertain when and to which extent the outflow of resources will be required as a result of the tax investigation as of December 31, 2022, the Company cannot reliably estimate the impact of the tax investigation on the separate financial statements.

The Company has entered into a long-term contract with Philip Morris Products S.A. (the "PMI") to sell the Company's smoke-free products for 15 years in the global market excluding Korea, with a five-year renewal requirement for some subcontracts. Under the contract, PMI has the right to market, distribute, and sell the Company's products overseas during the contract period, and sets a minimum warranty quantity of the sale of consumables such as sticks for five waves of three-year period during the contractual period.

Audit opinion on internal control over financial reporting

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of KT&G Corporation (the Company") and the separate financial statements of the Company for the year ended December 31, 2022 in accordance with the Article 8 of the *Act on External Audit of Stock Companies*.

Attachments:

1. Independent auditor's report on internal control over financial reporting
2. Report on the Effectiveness of Internal Control over Financial Reporting

Independent auditor's report on internal control over financial reporting

(English Translation of a Report Originally Issued in Korean)

KT&G Corporation
The Shareholders and Board of Directors

Opinion on Internal Control over Financial Reporting

We have audited KT&G Corporation's (the "Company") Internal Control over Financial Reporting ("ICFR") based on the Conceptual Framework for Designing and Operating ICFR established by the Operating Committee of ICFR (the "ICFR Committee") as of December 31, 2022.

In our opinion, the Company's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2022, in accordance with the Conceptual Framework for Designing and Operating ICFR.

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the statement of financial position as of December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and our report dated March 6, 2023 expressed an unqualified opinion thereon.

Basis for Opinion on ICFR

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

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

Management is responsible for designing, implementing and maintaining effective ICFR, and for assessing the effectiveness of ICFR included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

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

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

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

An audit of ICFR involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

ICFR Definition and Inherent Limitations

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

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

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



March 6, 2023

<p>This report is effective as of March 6, 2023, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the Company's ICFR and may result in modifications to this report.</p>
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Report on the Effectiveness of Internal Control over Financial Reporting

Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

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

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of KT&G Corporation (the Company), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2022.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2022, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

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

February 8, 2023

Bok In Baek

Chief Executive Officer



Yong Bum Kim

Internal Control over Financial Reporting Officer

