



# **KT&G Corporation**

Interim Separate Financial Statements

For the three-month periods ended March 31, 2023 and 2022

With the independent auditor's review report

## **Table of contents**

	Page
Report on Review of Interim Separate Financial Statements	
Interim Separate Statement of Financial Position	1
Interim Separate Statements of Comprehensive Income	3
Interim Separate Statements of Changes in Equity	4
Interim Separate Statements of Cash Flows	5
Notes to the Interim Separate Financial Statements	6

**Report on review of interim separate financial statements**  
(English Translation of a Report Originally Issued in Korean)

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

We have reviewed the accompanying interim separate financial statements of KT&G Corporation (the “Company”), which comprise the interim separate statement of financial position as of March 31, 2023, and the related interim separate statements of comprehensive income, interim separate statements of changes in equity and interim separate statements of cash flows for the three-month periods ended March 31, 2023 and 2022 and a summary of material accounting policy information and other explanatory information.

**Management’s responsibility for the interim separate financial statements**

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

**Auditor’s responsibility**

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

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

**Conclusion**

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

#### Other matters

We have audited the separate statement of financial position as of December 31, 2022, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended (not presented herein) in accordance with KSA, and our report dated March 6, 2023 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as of December 31, 2022, presented for comparative purposes, is not different, in all material respects, from the above audited separate statement of financial position.

May 11, 2023

*Ernst & Young Han Young*

This review report is effective as of May 11, 2023, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim separate financial statements and may result in modifications to this review report

# **KT&G Corporation**

## **Interim Separate Financial Statements** **For the three-month periods ended March 31, 2023 and 2022**

“The accompanying interim 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

Head office location: 71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea  
Phone: 080-931-0399

# KT&G Corporation

## Interim Separate Statements of Financial Position

As of March 31, 2023 (Unaudited) and December 31, 2022



(in Korean won)

	Notes	March 31, 2023	December 31, 2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	23	₩ 593,397,712,450	₩ 939,549,506,970
Current other financial assets	23,24	105,107,000,000	138,540,300,000
Current financial assets measured at fair value through profit or loss	23	295,665,132,401	393,106,179,920
Trade and other receivables	5,17,22,23	1,419,677,974,217	1,299,941,217,472
Derivative assets	23,24	1,017,966,761	23,069,310,564
Inventories	6	1,142,869,009,723	1,123,002,529,599
Refund assets and others		815,297,729	774,756,934
Accrued tobacco excise and other taxes		216,309,868,687	171,162,062,610
Advance payments		1,157,321,479	532,167,358
Prepaid expenses		7,084,562,534	6,784,143,597
<b>Total current assets</b>		<b>3,783,101,845,981</b>	<b>4,096,462,175,024</b>
<b>Non-current assets</b>			
Long-term other financial assets	23,24	45,843,332,104	42,409,642,939
Long-term deposits in MSA Escrow Fund	23,24	1,476,068,191,950	1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	23,24	319,302,888,800	313,603,030,687
Long-term trade and other receivables	5,22,23	155,840,097,390	136,915,925,866
Long-term financial assets measured at fair value through other comprehensive income or loss	23	160,267,645,860	159,228,150,120
Investments in associates and joint ventures	7,22,24	265,895,497,220	265,895,497,220
Investments in subsidiaries	8,22,24	1,355,430,850,687	1,230,060,147,705
Property, plant and equipment	9,22	1,169,725,580,568	1,177,839,389,576
Intangible assets	10	128,524,946,452	122,485,433,151
Investment properties	11,24	1,028,570,455,428	1,029,216,878,876
Right-of-use assets	12	25,064,210,909	25,640,239,743
Long-term prepaid expenses		5,566,641,175	5,738,434,892
Deferred income tax assets	21	2,256,827,079	34,826,052,342
Net defined benefit assets	15	69,963,501,340	79,453,887,466
<b>Total non-current assets</b>		<b>6,208,320,666,962</b>	<b>6,060,443,083,998</b>
<b>Total assets</b>		<b>₩ 9,991,422,512,943</b>	<b>₩ 10,156,905,259,022</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	14,23,24	₩ -	₩ 113,402,621
Trade and other payables	22,23	1,327,395,993,159	1,225,737,342,674
Current lease liabilities	22,23	6,493,022,015	7,006,566,187
Derivative liabilities	23,24	7,623,642,403	-
Advance receipts	17,22	19,159,507,107	13,191,400,626
Current refund liabilities and provisions	16	9,054,577,103	9,647,020,723
Current income tax liabilities	21	175,834,355,669	189,920,724,171
Tobacco excise and other taxes payables		654,456,045,005	592,076,394,448
<b>Total current liabilities</b>		<b>2,200,017,142,461</b>	<b>2,037,692,851,450</b>
<b>Non-current liabilities</b>			
Long-term trade and other payables	22,23	44,911,238,027	45,486,196,725
Long-term lease liabilities	22,23	16,473,725,367	17,333,148,601
Long-term advance receipts	17	1,426,365,595	960,666,324
Long-term refund liabilities and provisions	16	1,683,707,169	1,828,062,531
<b>Total non-current liabilities</b>		<b>64,495,036,158</b>	<b>65,608,074,181</b>
<b>Total liabilities</b>		<b>₩ 2,264,512,178,619</b>	<b>₩ 2,103,300,925,631</b>

# KT&G Corporation

## Interim Separate Statements of Financial Position, Continued

As of March 31, 2023 (Unaudited) and December 31, 2022



(in Korean won)

	<u>Notes</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(1,236,932,914,379)	(1,236,932,914,379)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		7,222,401,101,884	6,814,100,369,559
Retained earnings		254,006,447,005	989,001,178,397
<b>Total equity</b>	₩	<u>7,726,910,334,324</u>	₩ <u>8,053,604,333,391</u>
<b>Total liabilities and equity</b>	₩	<u>9,991,422,512,943</u>	₩ <u>10,156,905,259,022</u>

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

# KT&G Corporation

## Interim Separate Statements of Comprehensive Income

For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(in Korean won)

	Notes	March 31, 2023	March 31, 2022
<b>Sales</b>	4,22	₩ 821,013,050,660	₩ 844,849,883,439
Manufacture of tobacco		729,683,127,033	730,318,250,529
Real estate	17	58,627,761,411	86,492,750,932
Exports of leaf tobacco and others		32,702,162,216	28,038,881,978
<b>Cost of sales</b>	22	(401,185,159,692)	(392,088,880,194)
Manufacture of tobacco		(345,029,087,293)	(330,469,602,308)
Real estate	17	(26,801,985,871)	(36,378,969,260)
Exports of leaf tobacco and others		(29,354,086,528)	(25,240,308,626)
<b>Gross profit</b>		419,827,890,968	452,761,003,245
Selling, general and administrative expenses	18,22	(189,565,746,798)	(180,199,694,735)
<b>Operating profit</b>		230,262,144,170	272,561,308,510
Other income	19,22,23	79,651,192,196	72,588,043,806
Other expenses	19,22,23	(27,127,654,019)	(17,936,629,040)
Finance income	20,22,23	83,510,601,319	52,638,756,749
Finance costs	20,22,23	(10,955,968,618)	(22,530,518,114)
<b>Profit before income tax</b>		355,340,315,048	357,320,961,911
Income tax expense	21	(99,630,049,765)	(99,446,902,167)
<b>Profit for the period</b>		₩ 255,710,265,283	₩ 257,874,059,744
<b>Other comprehensive income (loss) for the year after income tax</b>			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	₩	(1,703,818,278)	₩ (640,992,519)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss		699,168,928	12,114,086,782
		(1,004,649,350)	11,473,094,263
<b>Total comprehensive income for the period</b>	₩	254,705,615,933	₩ 269,347,154,007
<b>Earnings per share</b>			
Basic and diluted earnings per share	₩	2,199	₩ 2,149

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



# KT&G Corporation Interim Separate Statements of Changes in Equity

For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserves	Retained earnings	Total equity
<b>Balance as of January 1, 2022</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,515,544,653,691	₩ 877,116,550,879	₩ 8,000,115,074,815
<b>Total comprehensive income (loss) for the period</b>							
Profit for the period	-	-	-	-	-	257,874,059,744	257,874,059,744
<b>Other comprehensive income (loss) for the period:</b>							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(640,992,519)	(640,992,519)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	12,114,086,782	-	12,114,086,782
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,330,221,000	(8,330,221,000)	-
	-	-	-	-	20,444,307,782	(8,971,213,519)	11,473,094,263
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	20,444,307,782	248,902,846,225	269,347,154,007
<b>Transactions with owners of the Company:</b>							
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	-
<b>Total Transactions with owners of the Company</b>	-	-	-	-	301,212,920,479	(877,116,550,879)	(575,903,630,400)
<b>Balance as of March 31, 2022</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,837,201,881,952	₩ 248,902,846,225	₩ 7,693,558,598,422
<b>Balance as of January 1, 2023</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (1,236,932,914,379)	₩ 528,894,053,906	₩ 6,814,100,369,559	₩ 989,001,178,397	₩ 8,053,604,333,391
<b>Total comprehensive income (loss) for the period</b>							
Profit for the period	-	-	-	-	-	255,710,265,283	255,710,265,283
<b>Other comprehensive income (loss) for the period:</b>							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(1,703,818,278)	(1,703,818,278)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	699,168,928	-	699,168,928
	-	-	-	-	699,168,928	(1,703,818,278)	(1,004,649,350)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	699,168,928	254,006,447,005	254,705,615,933
<b>Transactions with owners of the Company:</b>							
Dividends	-	-	-	-	-	(581,399,615,000)	(581,399,615,000)
Transfer to other reserves	-	-	-	-	407,601,563,397	(407,601,563,397)	-
<b>Total Transactions with owners of the Company</b>	-	-	-	-	407,601,563,397	(989,001,178,397)	(581,399,615,000)
<b>Balance as of March 31, 2023</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (1,236,932,914,379)	₩ 528,894,053,906	₩ 7,222,401,101,884	₩ 254,006,447,005	₩ 7,726,910,334,324

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

# KT&G Corporation

## Interim Separate Statements of Cash Flows

For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(in Korean won)	Notes	March 31, 2023	March 31, 2022
<b>Net cash flows provided by (used in) operating activities</b>			
Cash generated from operations	25	₩ (236,502,417,915)	₩ 78,726,138,602
Income taxes paid		(155,626,050,308)	155,992,439,991
		(80,876,367,607)	(77,266,301,389)
<b>Net cash flows used in investing activities</b>		(108,735,607,948)	(141,289,405,856)
Interest received		16,857,579,656	887,870,249
Dividends received		4,046,581,038	5,005,054,796
Decrease in other financial assets		36,340,300,000	110,000,000,000
Decrease in current financial assets measured at fair value through profit or loss		108,671,894,763	-
Decrease in long-term financial assets measured at fair value through profit or loss		1,186,824,059	-
Decrease in financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000
Disposal of property, plant and equipment		237,828,722	426,000
Disposal of investment properties		3,350,400,000	-
Disposal of assets held for sale		-	41,115,019,197
Disposal of investments in associates		-	12,278,711,553
Collection of loans		4,089,319,580	3,965,123,944
Increase in other financial assets		(6,340,300,000)	(90,000,000,000)
Increase in financial assets measured at fair value through profit or loss		(95,367,455)	(104,642,379,670)
Increase in long-term financial assets measured at fair value through profit or loss		(150,000,000)	(3,522,228,000)
Increase in long-term deposits in MSA Escrow Fund		(473,717,724)	(76,388,257,551)
Acquisition of property, plant and equipment		(72,286,792,435)	(8,498,548,014)
Acquisition of intangible assets		(13,348,781,436)	(2,812,754,073)
Acquisition of investment properties		(1,315,786,728)	(2,898,297,565)
Acquisition of investments in associates		-	(29,488,895,600)
Acquisition of investments in subsidiaries		(125,636,630,110)	-
Increase in loans		(63,866,008,155)	(2,408,063,493)
Increase in guarantee deposits		(2,951,723)	(1,082,187,629)
<b>Net cash flows used in financing activities</b>		(2,353,015,362)	(2,108,057,018)
Interest paid		(301,043,616)	(104,130,729)
Repayment of lease liabilities		(2,032,886,815)	(2,003,926,289)
Proceeds in short-term borrowings		260,000,000,000	-
Repayment of short-term borrowings		(260,019,084,931)	-
<b>Net decrease in cash and cash equivalents</b>		(347,591,041,225)	(64,671,324,272)
<b>Cash and cash equivalents at the beginning of the period</b>		939,549,506,970	590,603,139,764
Effect of exchange rate fluctuation on cash and cash equivalents		1,439,246,705	1,034,403,734
<b>Cash and cash equivalents at the end of the period</b>		₩ 593,397,712,450	₩ 526,966,219,226

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

**1. Overview of the Company**

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2023, the Company has 3 manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of the monopoly business of red ginseng and tobacco, the Company was excluded from 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.

## **2. Material Accounting Policies**

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

The interim separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS") 1034 *Interim Financial Reporting*. The accompanying interim separate financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

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, 2023, and these amendments and interpretations do not have a material impact on the interim separate financial statements.

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

The amendments to KIFRS 1008 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

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

The amendments to KIFRS 1001 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. KIFRS 1001 requires disclosure of the Company's significant accounting policies. The amendments replace the 'significant' accounting policies with 'material' accounting policies and add a description of material accounting policy information. The amendments allow the Company to provide more useful accounting policy information when making decisions about accounting policy disclosures.

The effective date of the amendments to KIFRS 1001 *Presentation of Financial Statements-Classification of Liabilities as Current or Non-current* has been deferred by one year from January 1, 2023, to January 1, 2024. The Company does not have a history of early adoption of these amendments, and the amendments do not have a material impact on the interim financial statements.

**2. Material Accounting Policies (Continued)***(c) KIFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments to KIFRS 1012 *Income Taxes* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

**(3) Material Accounting Policies**

Material accounting policies and method of computation used in the preparation of the interim separate financial statements are consistent with those of the separate financial statements for the year ended December 31, 2022, except for the changes due to the application of amendment and enactments of standards described in Note 2.(2) and the one described below.

*(a) Income Tax Expense*

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

### 3. Material Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimates may not equal the related actual results.

Material accounting estimates and assumptions applied in the preparation of these interim separate financial statements are the same as those applied to the separate financial statements for the year ended December 31, 2022, except for the estimates used to determine the income tax expense.

### 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)

				March 31, 2023	March 31, 2022
Revenue recognized at a point in time:					
Sales of tobacco/merchandise and service revenue	Korea	Wholesale, retail	₩	516,399	₩ 492,821
		Direct sales		1,153	840
	Export	Wholesale, retail		212,131	236,657
Sales of semifinished tobacco products/raw materials and others	Korea	Direct sales		59	3,043
	Export	Direct sales		32,643	24,996
Subtotal				762,385	758,357
Revenue recognized over time:					
Sales and rental of real estate	Korea	Sales		36,768	65,163
	Korea	Rental		21,860	21,330
Subtotal				58,628	86,493
Total				₩ 821,013	₩ 844,850

**5. Trade and Other Receivables**

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

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,079,636	₩ 43,565	₩ 1,065,807	₩ 36,529
Loans	133,969	54,845	78,465	50,512
Other receivables	170,168	10,611	120,629	10,197
Guarantee deposits	25,920	44,905	23,290	37,806
Accrued income	9,985	1,914	11,750	1,872
Total	₩ 1,419,678	₩ 155,840	₩ 1,299,941	₩ 136,916

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

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,504,670	₩ 282,209	₩ 1,378,601	₩ 261,723
Allowances:				
Trade receivables	(72,608)	(89,249)	(70,546)	(87,988)
Other receivables	(12,384)	(37,120)	(8,114)	(36,819)
Subtotal	(84,992)	(126,369)	(78,660)	(124,807)
Net trade and other receivables	₩ 1,419,678	₩ 155,840	₩ 1,299,941	₩ 136,916

(c) Changes in allowance for doubtful accounts for trade and other receivables for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023	March 31, 2022
Beginning balance	₩ 203,467	₩ 211,516
Impairment loss	7,894	3,888
Ending balance	₩ 211,361	₩ 215,404

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

**6. Inventories**

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

(in millions of Korean won)

	March 31, 2023			December 31, 2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 19,588	₩ (2,144)	₩ 17,444	₩ 24,145	₩ (1,825)	₩ 22,320
Finished goods	161,212	(8,795)	152,417	132,967	(10,264)	122,703
Half-finished goods	41,273	(816)	40,457	40,790	(988)	39,802
Work in progress	2,479	-	2,479	5,400	-	5,400
Raw materials	665,368	(233)	665,135	666,967	(268)	666,699
Materials	39,679	(5,707)	33,972	40,094	(6,302)	33,792
Supplies	51,100	-	51,100	49,188	-	49,188
By-products	5,208	-	5,208	5,140	-	5,140
Buildings under construction <sup>1</sup>	73,682	-	73,682	61,597	-	61,597
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate <sup>1</sup>	62,351	-	62,351	62,906	-	62,906
Goods in transit	37,134	-	37,134	52,093	(127)	51,966
Total	₩ 1,160,564	₩ (17,695)	₩ 1,142,869	₩ 1,142,777	₩ (19,774)	₩ 1,123,003

<sup>1</sup>Include ₩714 million reclassified from property, plant and equipment and ₩80,807 million reclassified from investment properties during the year ended December 31, 2022.

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023	March 31, 2022
Cost of sales:		
Loss (reversal) on valuation of inventories	₩ (2,079)	₩ (1,851)
Loss on obsolescence of inventories	2,680	1,785
Total	₩ 601	₩ (66)



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

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

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	March 31, 2023		December 31, 2022	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	Manufacturing medical supplies	12.53 W	1,830	12.53 W	1,830
	KORAMCO Banpo PFV Co., Ltd. <sup>1,2</sup>	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT <sup>3</sup>	Korea	Real estate investment, development and rental business	26.47	39,568	26.47	39,568
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Cheongna Medipolis PFV Co., Ltd. <sup>4</sup>	Korea	Real estate development and sales business	56.74	17,022	56.74	17,022
	INNODIS Co., Ltd. <sup>1</sup>	Korea	Game, advertizing agency	19.64	55	19.64	55
	SJ BIO MED Co., Ltd. <sup>1</sup>	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	21.92	-	22.73	-
	Mirae Asset KT&G Investment Fund I	Korea	Investment	45.00	4,500	45.00	4,500
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>5</sup>	Germany	Real estate rental business	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	Real estate development and rental business	50.00	144,500	50.00	144,500
Total				W	265,895	W	265,895

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

<sup>2</sup>As of March 31, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan (see Notes 24.(c)).

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

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

**7. Investments in Associates and Joint Ventures (Continued)**

<sup>5</sup>The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

The Company acquired equity securities of Mirae Asset KT&G Investment Fund I (45 shares for ₩4,500 million) 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.

**8. Investments in Subsidiaries**

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

(in millions of Korean won)

Name of entity	Location	Principal operation	March 31, 2023		December 31, 2022	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	W 762,130	100.00	W 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.	Türkiye	Manufacturing and selling tobaccos	99.99	57,039	99.99	31,415
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	-	100.00	-
Cosmocos Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	Holding Company	100.00	163,104	100.00	163,104
PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	Manufacturing and selling tobacco	6.56	1,162	-	-
PT KT&G Indonesia <sup>2</sup>	Indonesia	Selling tobaccos	-	-	99.99	1,162
SangSang Stay Inc.	Korea	Hotel business	100.00	31,802	100.00	2,068
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon Sangsang PFV. Inc.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	100.00	8,081
Mastern No.144 PFV Co., Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
KT&G Global Kazakhstan LLP	Kazakhstan	Selling tobaccos	100.00	18,510	-	-
KT&G Kazakhstan LLP	Kazakhstan	Manufacturing and selling tobacco	100.00	16,188	-	-
DNC Deogeun Co., Ltd. <sup>3</sup>	Korea	Real estate development and sales business	38.25	35,315	-	-
				W 1,355,431		W 1,230,060

<sup>1</sup>The percentage of ownership is including 6,978,948 shares (W25,291 million) of Renzoluc Pte., Ltd.

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

<sup>3</sup>The Company acquired 38.25% of preferred shares with voting rights of DNC Deogeun Co., Ltd. during the period ended March 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries.

**8. Investments in Subsidiaries (Continued)**

The Company acquired 75,344,496 shares (₩25,623 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. and 6,000,000 shares (₩30,000 million) of SangSang Stay Inc. during the period ended March 31, 2023 through paid-in capital increase.

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

The Company acquired 3,825 preferred shares with voting rights (₩35,315 million) of DNC Deogeun Co., Ltd., during the period ended March 31, 2023.

**(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 periods ended March 31, 2023 and 2022 are as follows:

*(in millions of Korean won)*

<b>Name of entity</b>	<b>March 31, 2023</b>	<b>March 31, 2022</b>	<b>Method for evaluating recoverable amount</b>
SangSang Stay Inc.	₩ 266	₩ 1,916	Fair value less costs to sell

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.

## 9. Property, Plant and Equipment

Changes in property, plant and equipment for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Beginning balance	₩	1,177,839	₩	1,128,957
Acquisition		23,161		11,414
Disposal/Impairment		(408)		(17)
Depreciation		(25,139)		(24,910)
Reclassification		(5,727)		(927)
Ending balance	₩	<u>1,169,726</u>	₩	<u>1,114,517</u>

## 10. Intangible Assets

Changes in intangible assets for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Beginning balance	₩	122,485	₩	97,363
Acquisition		10,830		10,854
Disposal/Impairment		(63)		(39)
Amortization		(4,714)		(1,865)
Reclassification		(13)		230
Ending balance	₩	<u>128,525</u>	₩	<u>106,543</u>

## 11. Investment Properties

Changes in investment properties for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Beginning balance	₩	1,029,217	₩	1,128,470
Acquisition		1,316		2,898
Disposal/Impairment		(787)		-
Depreciation		(6,903)		(6,362)
Reclassification		5,727		(22,663)
Ending balance	₩	<u>1,028,570</u>	₩	<u>1,102,343</u>

## 12. Right-of-use Assets

Changes in right-of-use assets for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Beginning balance	₩	25,640	₩	22,644
Acquisition		2,143		937
Disposal		(205)		(12)
Depreciation		(2,514)		(2,226)
Ending balance	₩	<u>25,064</u>	₩	<u>21,343</u>

## 13. Assets Held for Sale

Changes in assets held for sale for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Beginning balance	₩	-	₩	14,901
Disposal		-		(12,901)
Reclassification <sup>1</sup>		-		23,806
Ending balance	₩	<u>-</u>	₩	<u>25,806</u>

<sup>1</sup>Includes ₩22,647 million reclassified from investment properties, and ₩1,159 million reclassified from investment in associates for the three-month period ended March 31, 2022.

## 14. Borrowings

Details of short-term borrowings as of March 31, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>Lender</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Limit loan	NH Nonghyup Bank	₩ -	₩ 19
	NH Nonghyup Bank	-	75
Consumer credit agreements <sup>1</sup>	Hana Card	-	19
	Subtotal	-	94
	Total	₩ -	₩ 113

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

**15. Employee Benefits**

(a) Details of profit or loss recognized related to employee benefits for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Defined benefit plan:		
Current service cost	₩ 6,835	₩ 7,948
Net interest on net defined benefit liabilities (assets)	(1,029)	(74)
Subtotal	5,806	7,874
Defined contribution plan:		
Contributions recognized as expense	1,792	1,774
Other long-term employee benefits:		
Current service cost, etc.	895	1,041
Termination benefits:		
Voluntary retirements, etc.	355	1,772
Total	₩ 8,848	₩ 12,461

(b) Details of net defined benefit liabilities (assets) as of March 31, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Present value of defined benefit obligations	₩ 358,411	₩ 353,822
Fair value of plan assets	(428,375)	(433,276)
Total	₩ (69,964)	₩ (79,454)

**16. Refund Liabilities and Provisions**

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

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,573	₩ -	₩ 4,172	₩ -
Refund liabilities	5,173	1,582	5,197	1,592
Provision for site restoration	84	102	84	102
Provision for financial guarantee	106	-	-	134
Provision for greenhouse gases	119	-	194	-
Total	₩ 9,055	₩ 1,684	₩ 9,647	₩ 1,828

(b) Changes in refund liabilities and provisions for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 427	₩ (1,026)	₩ 3,573
Refund liabilities	6,789	20	(54)	6,755
Provision for site restoration	186	-	-	186
Provision for financial guarantee	134	-	(28)	106
Provision for greenhouse gases	194	-	(75)	119
Total	₩ 11,475	₩ 447	₩ (1,183)	₩ 10,739

(in millions of Korean won)

	March 31, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ 342	₩ (448)	₩ 4,809
Refund liabilities	5,526	101	-	5,627
Provision for site restoration	141	62	-	203
Provision for financial guarantee	271	-	(50)	221
Provision for greenhouse gases	269	-	(117)	152
Total	₩ 11,122	₩ 505	₩ (615)	₩ 11,012



**17. Real Estate Pre-sales Contracts**

(a) Details of ongoing real estate pre-sales contracts for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	March 31, 2023				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>1</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	88.14	₩ 803,056 ₩	750,352 ₩	661,352 ₩	34,661 ₩	298,953
ePyeonghansang Daejeon Station Centum Vista	December 2022	June 2026	5.79	226,951	45,475	2,632	2,107	2,101
Total				₩ 1,030,007 ₩	795,827 ₩	663,984 ₩	36,768 ₩	301,054

<sup>1</sup>Excludes the cumulative cost for common infrastructure, amounting to ₩104,205 million.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	March 31, 2022				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>1</sup>	Cost (cumulative) <sup>2</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	40.72	₩ 791,406 ₩	750,989 ₩	305,835 ₩	60,960 ₩	137,516

<sup>1</sup>Excludes sales revenue of ₩4,203 million of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of March 31, 2022.

<sup>2</sup>Excludes the cumulative cost for common infrastructure, amounting to ₩60,324 million.

**17. Real Estate Pre-sales Contracts (Continued)**

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

(in millions of Korean won)

Construction project	March 31, 2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	₩ 661,352	₩ 449,383	₩ 213,519	₩ 1,550
ePyeonghansang Daejeon Station Centum Vista	2,632	4,759	-	2,128
Total	₩ 663,984	₩ 454,142	₩ 213,519	₩ 3,678

(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
ePyeonghansang Daejeon Station Centum Vista	525	1,770	-	1,245
Total	₩ 627,216	₩ 377,548	₩ 252,461	₩ 2,793

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the three-month period ended March 31, 2023. Estimated total contract revenues and total contract costs of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until March 31, 2023 and subject to change in the future.

**18. Selling, General and Administrative Expenses**

Details of selling, general and administrative expenses for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023	March 31, 2022
Salaries	₩	77,563	₩ 73,067
Retirement and termination benefits		5,394	8,106
Employee welfare		8,635	8,600
Travel expenses		2,656	1,597
Communication cost		693	663
Utilities		4,226	3,199
Taxes and dues		1,880	1,268
Supplies		891	454
Rent		2,223	2,261
Depreciation		8,358	8,883
Amortization		4,679	1,841
Repairs and maintenance		460	634
Vehicles		797	831
Insurance		392	183
Commissions		39,154	34,723
Freight and custody		5,386	4,416
Conferences		837	449
Advertising		16,818	20,894
Education and training		1,416	799
Prizes and rewards		308	175
Research and development		3,477	2,898
Impairment loss (reversal of impairment loss) on trade receivables		3,323	4,259
Total	₩	189,566	₩ 180,200

**19. Other Income and Expenses**

(a) Details of other income for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023	March 31, 2022
Gain on foreign currency transaction	₩	5,947	₩ 4,366
Gain on foreign currency translation		62,502	37,922
Gain on valuation of derivatives		3,805	675
Reversal of impairment loss on other receivables		-	758
Gain on disposal of property, plant and equipment		1,391	-
Gain on disposal of investment properties		2,622	-
Gain on lease contract adjustments		18	-
Gain on disposal of assets held for sale		-	21,070
Gain on disposal of investments in associates and joint ventures		-	4,359
Miscellaneous income		3,366	3,438
Total	₩	79,651	₩ 72,588

**19. Other Income and Expenses (Continued)**

(b) Details of other expenses for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023	March 31, 2022
Loss on foreign currency transaction	₩	6,728	₩ 2,783
Loss on foreign currency translation		2,732	4,464
Loss on valuation of derivatives		9,398	5,760
Loss on impairment of other receivables		4,571	387
Loss on disposal of property, plant and equipment		14	17
Loss on disposal of intangible assets		-	7
Loss on impairment of intangible assets		63	33
Loss on disposal of investment properties		59	-
Loss on disposal of assets held for sale		-	1,218
Loss on impairment of investments in subsidiaries		266	1,916
Loss on lease contract adjustments		2	1
Donations		537	1,073
Miscellaneous loss		2,758	278
Total	₩	27,128	₩ 17,937

**20. Finance Income and Costs**

Details of finance income and costs for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023	March 31, 2022
Finance income:			
Interest income <sup>1</sup>	₩	13,860	₩ 3,230
Dividend income		41,731	29,815
Gain on valuation of financial assets measured at fair value through profit or loss		27,920	19,594
Total finance income	₩	83,511	₩ 52,639
Finance costs:			
Interest expense	₩	908	₩ 484
Other financial expense		-	10,300
Loss on valuation of financial assets measured at fair value through profit or loss		10,048	11,747
Total finance costs	₩	10,956	₩ 22,531
Net finance income	₩	72,555	₩ 30,108

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

**21. Income Tax Expense and Deferred Tax Assets**

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for the three-month periods ended March 31, 2023 and 2022, are 28.04% and 27.83%, respectively.

**22. Related Parties**

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

Type	Name of entity	Location	Percentage of ownership (%)					
			March 31, 2023			December 31, 2022		
			Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation	Korea	100.00	-	100.00	100.00	-	100.00
	Yungjin Pharm. Co., Ltd.	Korea	52.45	-	52.45	52.45	-	52.45
	Tae-A Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Tuntun Mamulleri 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. <sup>1</sup>	Singapore	100.00	-	100.00	100.00	-	100.00
	PT KT&G Indonesia <sup>2</sup>	Indonesia	-	-	-	99.99	-	99.99
	PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	6.56	93.43	99.99	-	99.99	99.99
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Global Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00
	Gwacheon Sangsang PFV. Inc.	Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation	Taiwan	100.00	-	100.00	100.00	-	100.00
	Master No.144 PFV Co., Ltd.	Korea	92.50	-	92.50	92.50	-	92.50
	KT&G Global Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-
	KT&G Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-
	DNC Deogun Co., Ltd. <sup>4</sup>	Korea	38.25	-	38.25	-	-	-
	K&I China Co., Ltd.	China	-	98.56	98.56	-	98.56	98.56
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00
	KGC Life&Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00
	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 Nusantara Indah Makmur	Indonesia	-	99.96	99.96	-	99.96	99.96
Associates	LitePharmTech Co., Ltd. <sup>5</sup>	Korea	12.53	-	12.53	12.53	-	12.53
	KORAMCO Banpo PFV Co., Ltd. <sup>5</sup>	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>5</sup>	Korea	19.47	-	19.47	19.47	-	19.47
	KOCREF 36 REIT	Korea	21.01	-	21.01	21.01	-	21.01
	KOCREF 41 REIT <sup>6</sup>	Korea	26.47	-	26.47	26.47	-	26.47
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	-	21.43	21.43	-	21.43
	Cheongna Medipolis PFV Co., Ltd. <sup>7</sup>	Korea	56.74	-	56.74	56.74	-	56.74
	INNODIS Co., Ltd. <sup>5</sup>	Korea	19.64	-	19.64	19.64	-	19.64
	SJ BIO MED Co., Ltd. <sup>5</sup>	Korea	14.39	-	14.39	14.39	-	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	-	21.92	22.73	-	22.73
	Mirae Asset KT&G Investment Fund I <sup>8</sup>	Korea	45.00	5.00	50.00	45.00	5.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	-	35.00	35.00	-	-	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>9</sup>	Germany	51.35	-	51.35	51.35	-	51.35
	Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00

**22. Related Parties (Continued)**

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

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

<sup>3</sup>The Company acquired 100% of KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the year ended March 31, 2023, and the Company has classified the shares as investments in subsidiaries.

<sup>4</sup>The Company acquired 38.25% of preferred shares with voting rights of DNC Deogeun Co., Ltd. during the period ended March 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries.

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

<sup>6</sup>The Company has reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the 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.

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

<sup>8</sup>The Company and Korea Ginseng Corporation, the subsidiary of the Company, acquired 50.00% of Mirae Asset KT&G Investment I during the year ended December 31, 2022, and the Company classified the shares as investments in associates.

<sup>9</sup> The Company has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

**22. Related Parties (Continued)**

(b) The Company conducts transactions with related parties, such as sales of goods and provision of services, and etc. Details of transactions with related parties for the three-month periods ended March 31, 2023 and 2022 are as follows:

**① Sales and other income**

(in millions of Korean won)

Type	Name of entity	March 31, 2023	March 31, 2022
Subsidiaries	Korea Ginseng Corporation	₩ 3,450	₩ 2,332
	Yungjin Pharm. Co., Ltd.	207	91
	Tae-A Industrial Co., Ltd.	131	108
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	8,185	3,064
	Korea Tabacos do Brasil Ltda. <sup>1</sup>	-	1
	KT&G Rus L.L.C. <sup>1</sup>	11,935	7,863
	Cosmococ Co., Ltd.	12	5
	PT KT&G Indonesia <sup>1</sup>	-	130
	SangSang Stay Inc.	1,228	1,226
	KT&G Global Rus L.L.C. <sup>1</sup>	1,079	198
	Gwacheon Sangsang PFV. Inc.	36,939	20,824
	KGCyebon Corporation	7	4
	KGC Life&Gin Co., Ltd.	13	19
	PT Trisakti Purwosari Makmur <sup>1</sup>	12,103	9,893
	KT&G Kazakhstan LLP	1	-
	KT&G Taiwan Corporation	3,229	-
Associates	Kiwoom Milestone Private REIT No.16	-	793
	Total	₩ 78,519	₩ 46,551

<sup>1</sup>Excludes impairment loss of ₩5,934 million and ₩4,225 million in relation to the related parties for the three-month periods ended March 31, 2023 and 2022.

**② Purchases and other expenses**

(in millions of Korean won)

Type	Name of entity	March 31, 2023	March 31, 2022
Subsidiaries	Korea Ginseng Corporation	₩ 349	₩ 342
	Yungjin Pharm. Co., Ltd.	222	223
	Tae-A Industrial Co., Ltd.	9,322	6,612
	Cosmococ Co., Ltd.	2	6
	SangSang Stay Inc.	74	7
	KGCyebon Corporation	396	207
	KGC Life&Gin Co., Ltd.	-	4
	PT Trisakti Purwosari Makmur	-	7
Associates	INNODIS Co., Ltd.	49	434
Joint ventures	Starfield Suwon Inc.	-	68
	Total	₩ 10,414	₩ 7,910

**22. Related Parties (Continued)**

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

(in millions of Korean won)		March 31, 2023		December 31, 2022	
Type	Name of entity	Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 1,158	₩ 2,200	₩ 14	₩ 2,210
	Yungjin Pharm. Co., Ltd. <sup>2</sup>	4,693	50	-	67
	Tae-A Industrial Co., Ltd.	-	8,207	-	4,492
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	54,544	-	46,130	-
	Korea Tabacos do Brasil Ltda. <sup>1,2</sup>	122	-	122	-
	KT&G Pars <sup>1,2</sup>	44,526	-	44,526	-
	KT&G Rus L.L.C. <sup>1</sup>	81,955	-	70,857	-
	KT&G USA Corporation <sup>1</sup>	53,094	326	53,094	317
	Cosmococ Co., Ltd.	9	-	-	-
	SangSang Stay Inc.	1	-	-	-
	PT KT&G Indonesia <sup>1,2</sup>	-	-	26,296	-
	PT Trisakti Purwosari Makmur <sup>1,2</sup>	192,071	-	100,450	-
	KT&G Kazakhstan LLP	1	-	-	-
	KT&G Global Rus L.L.C.	1,351	-	167	-
	Gwacheon Sangsang PFV. Inc. <sup>3</sup>	57,763	-	21,079	-
	KGCyebon Corporation	8	8,210	-	8,362
	KGC Life&Gin Co., Ltd.	-	-	-	115
	KT&G Taiwan Corporation	3,345	-	4,380	-
	AndaStation Professional Investment Private REIT No.1	-	-	481	-
	INNODIS Co., Ltd.	-	-	-	35
Joint ventures	Starfield Suwon Inc.	-	-	70	-
Total		₩ 494,641	₩ 18,993	₩ 367,666	₩ 15,598

<sup>1</sup>Presented in total amount before deducting loss allowance of ₩143,676 million and ₩137,742 million as of March 31, 2023 and as of December 31, 2022.

<sup>2</sup>Includes loans to related parties.

<sup>3</sup>Includes dividends receivable to related parties.

(d) Details of purchase and sale of property, plant and equipment with related parties for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)		March 31, 2023		March 31, 2022	
Type	Name of entity	Sale of property, plant and equipment	Purchase of property, plant and equipment	Sale of property, plant and equipment	Purchase of property, plant and equipment
Subsidiaries	PT Trisakti Purwosari Makmur	₩ 3,120	₩ -	-	-



**22. Related Parties (Continued)**

(e) Details of fund transactions with related parties for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2023			March 31, 2022		
		Equity investment	Repayment of lease liabilities	Loan of funds	Equity investment	Repayment of lease liabilities	Equity recovery
Subsidiaries	SangSang Stay Inc.	W 30,000	W -	W -	W -	W -	W -
	Yungjin Pharm. Co., Ltd.	-	-	4,500	-	-	-
	KGCyebon Corporation	-	153	-	-	150	-
	PT Trisakti Purwosari Makmur	-	-	58,627	-	-	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A. S.	25,623	-	-	-	-	-
	KT&G Global Kazakhstan LLP	18,510	-	-	-	-	-
	KT&G Kazakhstan LLP	16,188	-	-	-	-	-
	DNC Deogeun Co., Ltd.	35,315	-	-	-	-	-
	KOCREF 41 REIT	-	-	-	29,489	-	12,279
	Other	-	-	-	-	-	24,353
Total		W 125,636	W 153	W 63,127	W 29,489	W 150	W 36,632

<sup>1</sup> The Company excluded the entity from related parties, as the entity was sold to the third-party during the three-month period ended March 31, 2022.

(f) As of March 31, 2023, 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 (see Note 24 (c)).

(g) During the year ended March 31, 2023, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococ Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds 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 March 31, 2023, the outstanding contribution amount 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 March 31, 2023, 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.

**22. Related Parties (Continued)**

(l) The Company has a joint disposal right to demand 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 the 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 an agreement to extend the maturity of loans to PT Trisakti Purwosari Makmur (former PT KT&G Indonesia) worth at USD 20,750 thousand, and loans to Korea Tabacos do Brasil Ltd. worth at ₩94 million, respectively during the year ended December 31, 2022.

(n) As of March 31, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Notes 7 and 24 (c)).

(o) Key management personnel compensation for the three-month periods ended March 31, 2023 and 2022 are as follows:

*(in millions of Korean won)*

		<u>March 31, 2023</u>		<u>March 31, 2022</u>
Short-term and long-term employee benefits	₩	5,131	₩	5,222
Retirement benefits		616		592
Total	₩	<u>5,747</u>	₩	<u>5,814</u>

**23. 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 eliminate, avoid and reduce 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 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.

**② Price risk**

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

**23. Risk Management and Fair Value of Financial Instruments (Continued)****③ Interest rate risk**

The Company is exposed to the risk of interest rate fluctuation related to its borrowings, trade payables and other payables, and lease liabilities. The Company's management maintains an appropriate balance between the fixed and variable interest borrowings 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 March 31, 2023.

**(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 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.

As of March 31, 2023 and December 31, 2022, the carrying amount of financial assets is the maximum exposure to credit risk.

**(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.

**23. Risk Management and Fair Value of Financial Instruments (Continued)**

(d) Details of the carrying amounts of each category of financial instrument as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

		March 31, 2023		December 31, 2022
Financial assets:				
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩	1,029,468	₩	1,044,615
Financial assets measured at fair value through other comprehensive income or loss		160,268		159,228
Derivative assets		1,018		23,069
Financial assets measured at amortized cost				
Cash and cash equivalents <sup>1</sup>		178,898		601,644
Other financial assets		150,950		180,950
Trade and other receivables		1,575,518		1,436,857
Long-term deposits		1,476,068		1,437,130
Subtotal		3,381,434		3,656,581
Total financial assets	₩	4,572,188	₩	4,883,493
Financial liabilities:				
Derivative liabilities	₩	7,624	₩	-
Financial liabilities measured at amortized cost				
Short-term borrowings		-		113
Trade and other payables		1,083,601		900,384
Lease liabilities		22,967		24,340
Subtotal		1,106,568		924,837
Total financial liabilities	₩	1,114,192	₩	924,837

<sup>1</sup>As of March 31, 2023, the money market trust amounting to ₩414,500 million (December 31, 2022: ₩337,906 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 the extent possible. Fair value is classified within the fair value hierarchy, based on the inputs used in valuation techniques 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

**23. Risk Management and Fair Value of Financial Instruments (Continued)**

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

(in millions of Korean won)

		March 31, 2023			
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩ 1,029,468	₩ -	₩ 678,119	₩ 351,349	
Financial assets measured at fair value through other comprehensive income or loss	160,268	151,268	-	9,000	
Derivative assets	1018	-	1,018	-	
Total financial assets	₩ 1,190,754	₩ 151,268	₩ 679,137	₩ 360,349	
Derivative liabilities	₩ 7,624	₩ -	₩ 7,624	₩ -	

<sup>1</sup>As of March 31, 2023, money market trust amounting to ₩414,500 million included in cash equivalents is classified as financial assets measured at fair value through profit or loss.

(in millions of Korean won)

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

<sup>1</sup>As of December 31, 2022, money market trust amounting to ₩337,906 million 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 three-month periods ended March 31, 2023 and 2022.

As of March 31, 2023 and December 31, 2022, 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.

**23. Risk Management and Fair Value of Financial Instruments (Continued)**

The changes in Level 3 fair value for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

		March 31, 2023		March 31, 2022
Beginning balance	₩	360,125	₩	312,642
Acquisition		245		3,522
Disposal		(1,530)		-
Transfers		-		(28,300)
Changes in fair value		1,509		2,352
Ending balance	₩	360,349	₩	290,216

(f) Details of net gain or loss by each financial instruments category for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	13,860	₩ -	13,860
Dividend income	1,325	3,467	-	-	-	4,792
Gain or loss on valuation	17,872	-	(5,594)	-	-	12,278
Gain or loss on disposal	-	-	-	-	16	16
Interest expense	-	-	-	-	(908)	(908)
Impairment loss	-	-	-	(7,894)	-	(7,894)
Total	₩ 19,197	₩ 3,467	₩ (5,594)	₩ 5,966	₩ (892)	₩ 22,144
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 1,039	₩ -	₩ -	₩ -	₩ 1,039

(in millions of Korean won)

	March 31, 2022					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	3,230	₩ -	3,230
Dividend income	2,586	5,613	-	-	-	8,199
Gain or loss on valuation	7,847	-	(5,086)	-	-	2,761
Gain or loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(484)	(484)
Impairment loss	-	-	-	(3,888)	-	(3,888)
Total	₩ 10,433	₩ (4,687)	₩ (5,086)	₩ (658)	₩ (484)	₩ (482)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 16,709	₩ -	₩ -	₩ -	₩ 16,709

**24. Contingent Liabilities and Commitments**

## (a) Litigation cases

As of March 31, 2023, the Company has 7 pending litigations where the Company is in the position of the defendant, and the litigation amounts amount to ₩57,987 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 March 31, 2023.

## (b) Commitments with financial institutions

The Company's major arrangements with financial institutions as of March 31, 2023 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank	USD	100,000	74,378
Derivatives trading <sup>1</sup>	KB Kookmin Bank and four others	USD	334,500	12,578
Limit loan	NH Nonghyup Bank and two others	KRW	400,000	-

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

As of March 31, 2023, the Company has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 119,250 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 March 31, 2023 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	590,456	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	45,719	License guarantee, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco

As of March 31, 2023, 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.



**24. Contingent Liabilities and Commitments (Continued)**

Details of payment guarantees provided by the Company to other parties as of March 31, 2023 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	₩ 65,593	Loan guarantee for the intermediate payment of off-plan sales construction

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 14).

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

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment properties	₩ 472,107	₩ 23,171	₩ 26,466	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 leasehold 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. <sup>1</sup>
Total	₩ 489,873	₩ 113,768	₩ 44,232		

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

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

(in millions of Korean won)

		March 31, 2023	December 31, 2022
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

**24. Contingent Liabilities and Commitments (Continued)****(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 ₩1,476,068 million in long-term deposits for MSA Escrow Fund as of March 31, 2023 (as of December 31, 2022: ₩1,437,130 million), and they consist of T-Notes, T-bills, and demand deposits.

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

The Company has entered into a capital contribution agreement in relations to debt instruments of Smilegate-Newdeal fund, and etc., with the ceiling of ₩65,557 million in total. As of March 31, 2023, the outstanding contribution amount is ₩28,013 million, and the detailed timeline for contribution is yet to be determined.

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 March 31, 2023, the outstanding contribution amount 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 demand 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 the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to the Company.

**24. Contingent Liabilities and Commitments (Continued)**

As of March 31, 2023, the Company is being provided with a commitment to complete the construction and a guarantee from contractors and mutual aid associations for the sale contract (Suwon Hwaseo Prugio Briciel, etc.) proceed by the Company.

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

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 until October 20, 2023 under agreement. For prompting the construction, the Company also promised to pay ₩10 billion in advance to Bando Engineering & Construction Co., Ltd. until October 20, 2023.

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

As of March 31, 2023, the Company and KT&G USA Corporation received a notification from the US Department of Justice ("DOJ") to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of March 31, 2023.

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

The OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting) is intended to counter tax avoidance and tax base erosion through income transfer by multinational corporations in the digital economy. The BEPS Pillar Two model rules apply to multinational entities with consolidated sales exceeding 750 million euros. In Korea, the global minimum tax was passed by the National Assembly at the end of 2022 as part of the revision of the 'Act on International Tax Adjustment'. The domestic effective date of this law is January 1, 2024, and the enforcement decree on the global minimum tax has not been amended as of March 31, 2023. As the global minimum tax in Korea has not been substantially enacted for financial reporting purposes, there is no related tax effect recognized by the Company in its separated financial statements as of March 31, 2023.

**25. Cash Flows**

Cash generated from operations for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023	March 31, 2022
Profit for the three-month periods ended March 31	₩	255,710	₩ 257,874
Adjustments:			
Employee welfare		885	1,196
Retirement benefits		5,806	7,874
Loss (Reversal) on valuation or obsolescence of inventories		601	(66)
Depreciation		34,556	33,498
Amortization		4,714	1,865
Impairment loss on trade and other receivables		7,894	3,888
Loss on foreign currency translation		2,732	4,464
Loss on valuation of derivatives		9,398	5,760
Loss on disposal of property, plant and equipment		14	17
Loss on disposal of intangible assets		-	7
Loss on impairment of intangible assets		63	33
Loss on disposal of investment property		59	-
Loss on disposal of assets held for sale		-	1,218
Loss on impairment of investments in subsidiaries		266	1,916
Other expenses, etc.		311	422
Finance costs		10,956	22,531
Income tax expense		99,630	99,447
Gain on foreign currency translation		(62,502)	(37,922)
Gain on valuation of derivatives		(3,805)	(675)
Gain on disposal of property, plant and equipment		(1,391)	-
Gain on disposal of investment properties		(2,622)	-
Gain on disposal of assets held for sale		-	(21,070)
Gain on disposal of investments in associates and joint ventures		-	(4,359)
Other income, etc.		(1,812)	(1,168)
Finance income		(83,511)	(52,639)
Changes in working capital:			
Increase in trade and other receivables		(31,219)	(202,678)
Decrease (increase) in derivatives		24,081	(4,583)
Decrease (increase) in inventories		(20,468)	30,842
Decrease (increase) in accrued tobacco excise and other taxes		(45,148)	146,764
Increase in advance payments		(682)	(4,540)
Decrease in prepaid expenses		64	1,245
Increase (decrease) in trade and other payables		(429,861)	64,019
Increase (decrease) in advance receipts		5,905	(756)
Increase (decrease) in tobacco excise and other taxes payable		62,380	(195,549)
Increase (decrease) in net defined benefit liabilities (assets)		1,370	(2,883)
Cash generated from operations	₩	(155,626)	₩ 155,992

**26. Subsequent Event**

The Company had been under a tax investigation for the taxation periods 2018-2020 from the Daejeon Regional Tax Office beginning on January 26, 2023, and the relevant payment amount was reflected in the financial statements according to the results of the tax investigation notification received on May 9, 2023.