



KT&G Corporation

Interim Separate Financial Statements
For the six-month periods ended June 30, 2023 and 2022
With the independent auditor's review report

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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 June 30, 2023, and the related interim separate statements of comprehensive income for the three and six-month periods ended June 30, 2023 and 2022, interim separate statements of changes in equity and interim separate statements of cash flows for the six-month periods ended June 30, 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 matter

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.

August 10, 2023

Ernst & Young Han Young

This review report is effective as of August 10, 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 and six-month periods ended June 30, 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

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KT&G Corporation
Interim Separate Statements of Financial Position
As of June 30, 2023 (Unaudited) and December 31, 2022



<i>(in Korean won)</i>	<u>Notes</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Assets			
Current assets			
Cash and cash equivalents	23	361,370,263,193	939,549,506,970
Current other financial assets	23,24	105,740,703,264	138,540,300,000
Current financial assets measured at fair value through profit or loss	23	199,320,016,129	393,106,179,920
Trade and other receivables	5,17,22,23,24	1,382,082,268,877	1,299,941,217,472
Derivative assets	23,24	1,584,501,881	23,069,310,564
Inventories	6	1,163,181,501,302	1,123,002,529,599
Refund assets and others		888,176,819	774,756,934
Accrued tobacco excise and other taxes		228,751,901,949	171,162,062,610
Advance payments		33,468,208,022	532,167,358
Prepaid expenses		9,943,653,651	6,784,143,597
Total current assets		<u>3,486,331,195,087</u>	<u>4,096,462,175,024</u>
Non-current assets			
Long-term other financial assets	23,24	55,209,240,127	42,409,642,939
Long-term deposits in MSA Escrow Fund	23,24	1,492,799,225,964	1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	23,24	326,262,392,500	313,603,030,687
Long-term trade and other receivables	5,22,23	183,047,509,435	136,915,925,866
Long-term financial assets measured at fair value through other comprehensive income or loss	23	157,533,341,820	159,228,150,120
Investments in associates and joint ventures	7,22,24	270,395,497,220	265,895,497,220
Investments in subsidiaries	8,22,24	1,351,278,019,353	1,230,060,147,705
Property, plant and equipment	9,22	1,171,827,604,217	1,177,839,389,576
Intangible assets	10	132,666,693,031	122,485,433,151
Investment properties	11,24	989,523,175,556	1,029,216,878,876
Right-of-use assets	12	24,127,169,950	25,640,239,743
Long-term prepaid expenses		8,822,131,880	5,738,434,892
Deferred tax assets	21	13,106,277,899	34,826,052,342
Net defined benefit assets	15,22	44,140,313,472	79,453,887,466
Total non-current assets		<u>6,220,738,592,424</u>	<u>6,060,443,083,998</u>
Total assets	W	<u>9,707,069,787,511</u>	W <u>10,156,905,259,022</u>
Liabilities			
Current liabilities			
Short-term borrowings	14,23,24	W -	W 113,402,621
Trade and other payables	22,23,24	943,559,265,263	1,225,737,342,674
Current lease liabilities	22,23	6,114,171,233	7,006,566,187
Derivative liabilities	23,24	1,272,978,598	-
Advance receipts	17	20,491,714,441	13,191,400,626
Current refund liabilities and provisions	16	8,453,548,596	9,647,020,723
Current tax liabilities	21	133,521,757,313	189,920,724,171
Tobacco excise and other taxes payables		611,921,136,047	592,076,394,448
Total current liabilities		<u>1,725,334,571,491</u>	<u>2,037,692,851,450</u>
Non-current liabilities			
Long-term trade and other payables	22,23,24	48,114,749,511	45,486,196,725
Long-term lease liabilities	22,23	15,738,460,750	17,333,148,601
Long-term advance receipts	17	3,035,695,661	960,666,324
Long-term refund liabilities and provisions	16	1,734,231,147	1,828,062,531
Total non-current liabilities		<u>68,623,137,069</u>	<u>65,608,074,181</u>
Total liabilities	W	<u>1,793,957,708,560</u>	W <u>2,103,300,925,631</u>

KT&G Corporation
Interim Separate Statements of Financial Position, Continued
As of June 30, 2023 (Unaudited) and December 31, 2022



(in Korean won)

	<u>Notes</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Equity			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		3,951,229,823	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		7,220,388,654,111	6,814,100,369,559
Retained earnings		441,851,570,490	989,001,178,397
Total equity	₩	<u>7,913,112,078,951</u>	₩ <u>8,053,604,333,391</u>
Total liabilities and equity	₩	<u>9,707,069,787,511</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 and six-month periods ended June 30, 2023 and 2022 (Unaudited)



(in Korean won)

	Notes	June 30, 2023		June 30, 2022	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Sales	4,22	W 882,640,778,674	W 1,703,653,829,334	W 966,346,260,699	W 1,811,196,144,138
Manufacture of tobacco		779,656,092,588	1,509,339,219,621	810,750,390,208	1,541,068,640,737
Real estate	17	65,634,375,207	124,262,136,618	116,225,867,365	202,718,618,297
Exports of leaf tobacco and others		37,350,310,879	70,052,473,095	39,370,003,126	67,408,885,104
Cost of sales	22	(433,574,967,923)	(834,760,127,615)	(449,537,632,368)	(841,626,512,562)
Manufacture of tobacco		(369,035,317,257)	(714,064,404,550)	(364,677,480,309)	(695,147,082,617)
Real estate	17	(31,958,226,749)	(58,760,212,620)	(52,262,912,582)	(88,641,881,842)
Exports of leaf tobacco and others		(32,581,423,917)	(61,935,510,445)	(32,597,239,477)	(57,837,548,103)
Gross profit		449,065,810,751	868,893,701,719	516,808,628,331	969,569,631,576
Selling, general and administrative expenses	18,22	(205,276,047,235)	(394,841,794,033)	(204,158,389,667)	(384,358,084,402)
Operating profit		243,789,763,516	474,051,907,686	312,650,238,664	585,211,547,174
Other income	19,22,23	30,499,593,798	106,529,993,616	185,477,325,931	254,278,819,241
Other expenses	19,22,23	(35,691,708,909)	(59,198,570,550)	(32,066,842,996)	(46,216,921,540)
Finance income	20,22,23	38,655,242,951	114,063,199,769	21,860,212,149	74,498,968,898
Finance costs	20,22,23	(1,735,184,916)	(4,588,509,033)	(9,836,718,018)	(32,367,236,132)
Profit before income tax		275,517,706,440	630,858,021,488	478,084,215,730	835,405,177,641
Income tax expense	21	(73,570,717,752)	(173,200,767,517)	(127,615,798,550)	(227,062,700,717)
Profit for the period	W	201,946,988,688	W 457,657,253,971	W 350,468,417,180	W 608,342,476,924
Other comprehensive income (loss) for the period after income tax					
Items that will not be reclassified to profit or loss in subsequent periods					
Re-measurements of net defined benefit liabilities	W	(14,101,865,203)	W (15,805,683,481)	W (203,276,948)	W (844,269,467)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss		(2,012,447,773)	(1,313,278,845)	(13,046,795,970)	(932,709,188)
		(16,114,312,976)	(17,118,962,326)	(13,250,072,918)	(1,776,978,655)
Total comprehensive income for the period	W	185,832,675,712	W 440,538,291,645	W 337,218,344,262	W 606,565,498,269
Earnings per share					
Basic and diluted earnings per share	W	1,737	W 3,936	W 2,921	W 5,070

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

Interim Separate Statements of Changes in Equity
For the six-month periods ended June 30, 2023 and 2022 (Unaudited)

(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserves	Retained earnings	Total equity
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 8,000,115,074,915
Total comprehensive income (loss) for the period	-	-	-	-	-	608,342,476,924	608,342,476,924
Profit for the period	-	-	-	-	-	(844,269,467)	(844,269,467)
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	(932,709,188)	-	(932,709,188)
Loss on valuation from 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	-	-	-	-	8,330,221,000	(8,330,221,000)	-
Total comprehensive income (loss) for the period	-	-	-	-	7,397,511,812	(8,174,490,467)	(1,776,978,655)
Transactions with owners of the Company:							
Dividends	-	-	-	-	7,397,511,812	599,167,986,457	606,565,498,269
Transfer to other reserves	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)
Balance as of June 30, 2022	W 954,959,485,000	W 3,582,160,908	W (879,981,829,569)	W 528,894,053,906	W 6,524,155,085,982	W 599,167,986,457	W 8,030,776,942,684
Balance as of January 1, 2023	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
Total comprehensive income (loss) for the period	-	-	-	-	-	457,657,253,971	457,657,253,971
Profit for the period	-	-	-	-	-	(15,805,663,481)	(15,805,663,481)
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	(1,313,278,846)	-	(1,313,278,846)
Loss on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	(1,313,278,846)	(15,805,663,481)	(17,118,962,326)
Total comprehensive income (loss) for the period	-	-	-	-	(1,313,278,846)	441,851,570,490	440,538,291,645
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(581,399,615,000)	(581,399,615,000)
Transfer to other reserves	-	-	-	-	407,601,563,397	(407,601,563,397)	-
Share options	-	W 369,068,915	-	-	-	-	369,068,915
Balance as of June 30, 2023	W 954,959,485,000	W 3,951,229,823	W (1,236,932,914,379)	W 528,894,053,906	W 7,220,388,654,111	W 441,851,570,490	W 7,913,112,078,951

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

KT&G Corporation
Interim Separate Statements of Cash Flows
For the six-month periods ended June 30, 2023 and 2022 (Unaudited)



(in Korean won)

	Notes	June 30, 2023	June 30, 2022
Net cash flows provided by operating activities		₩ 91,977,121,086	₩ 464,734,144,447
Cash generated from operations	25	293,806,121,619	651,151,267,313
Income taxes paid		(201,829,000,533)	(186,417,122,866)
Net cash flows provided by (used in) investing activities		(85,554,932,870)	287,861,018,312
Interest received		18,760,494,024	2,908,801,029
Dividends received		14,214,887,442	18,513,269,736
Decrease in other financial assets		36,338,896,250	250,000,000,000
Decrease in current financial assets measured at fair value through profit or loss		219,161,665,485	231,159,396,358
Decrease in long-term financial assets measured at fair value through profit or loss		3,910,816,934	-
Decrease in financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000
Disposal of property, plant and equipment		690,127,454	636,833,171
Disposal of intangible assets		900,000	300,000,000
Disposal of investment properties		8,348,399,000	-
Disposal of assets held for sale		187,516,937	62,512,576,176
Disposal of investments in associates and joint ventures		-	12,278,711,553
Collection of loans		9,325,296,211	9,089,373,356
Collection of guarantee deposits		14,164,103	-
Increase in other financial assets		(16,340,300,000)	(90,000,000,000)
Increase in current financial assets measured at fair value through profit or loss		(1,458,917,130)	-
Increase in long-term financial assets measured at fair value through profit or loss		(7,503,190,000)	(26,042,400,800)
Increase in financial assets measured at fair value through other comprehensive income or loss		-	(2,999,982,000)
Increase in long-term deposits in MSA Escrow Fund		(1,539,549,579)	(93,438,012,240)
Acquisition of property, plant and equipment		(119,270,772,090)	(34,497,217,688)
Acquisition of intangible assets		(22,354,314,110)	(23,025,949,546)
Acquisition of investment properties		(3,000,790,718)	(3,565,385,905)
Acquisition of investments in associates and joint ventures		(4,500,000,000)	(29,488,895,600)
Acquisition of investments in subsidiaries		(125,873,673,850)	-
Increase in loans		(94,581,366,489)	(2,408,063,493)
Increase in guarantee deposits		(85,222,744)	(1,272,035,795)
Net cash flows used in financing activities		(586,066,561,009)	(580,110,490,279)
Dividends paid		(581,399,615,000)	(575,903,630,400)
Interest paid		(701,110,607)	(197,135,524)
Repayment of lease liabilities		(3,946,750,471)	(4,009,724,355)
Proceeds from short-term borrowings		600,000,000,000	-
Repayment of short-term borrowings		(600,019,084,931)	-
Net increase (decrease) in cash and cash equivalents		(579,644,372,793)	172,484,672,480
Cash and cash equivalents at the beginning of the period		939,549,506,970	590,603,139,764
Effect of exchange rate fluctuation on cash and cash equivalents		1,465,129,016	4,125,372,463
Cash and cash equivalents at the end of the period	₩	<u>361,370,263,193</u>	₩ <u>767,213,184,707</u>

"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 June 30, 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 monopoly business of red ginseng and tobacco, the Company was excluded from the 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 Interim 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 corrections of accounting 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 fiscal 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)

			June 30, 2023		June 30, 2022	
			Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Revenue recognized at a point in time:						
Sales of tobacco/merchandise and service revenue	Korea	Wholesale and retail	549,370	1,065,769	551,417	1,044,239
		Direct sales	1,044	2,197	673	1,512
Sales of semifinished tobacco products/raw materials and others	Export	Wholesale and retail	229,242	441,373	258,661	495,318
		Direct sales	13,825	13,884	602	3,645
		Export	23,526	56,169	38,768	63,764
		Subtotal	817,007	1,579,392	850,121	1,608,478
Revenue recognized over time:						
Sales and rental of real estate	Korea	Sales	44,352	81,120	95,800	160,964
		Rental	21,282	43,142	20,425	41,754
		Subtotal	65,634	124,262	116,225	202,718
		Total	882,641	1,703,654	966,346	1,811,196

5. Trade and Other Receivables

(a) Details of trade and other receivables as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Trade receivables	1,071,021	59,282	1,065,807	36,529
Loans	140,378	75,790	78,465	50,512
Other receivables	119,771	9,033	120,629	10,197
Guarantee deposits	37,113	35,898	23,290	37,806
Accrued income	13,799	3,045	11,750	1,872
Total	1,382,082	183,048	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 June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Total carrying amount	1,443,574	319,067	1,378,601	261,723
Allowances:				
Trade receivables	(52,987)	(98,641)	(70,546)	(87,988)
Other receivables	(8,505)	(37,378)	(8,114)	(36,819)
Total allowances	(61,492)	(136,019)	(78,660)	(124,807)
Net trade and other receivables	1,382,082	183,048	1,299,941	136,916

(c) Changes in allowance for doubtful accounts for trade and other receivables for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023	June 30, 2022
Beginning balance	203,467	211,516
Reversal of impairment loss	(5,956)	(1,113)
Ending balance	197,511	210,403

Impairment loss of trade receivables and reversal of 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 June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023			December 31, 2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	22,677	(3,071)	19,606	24,145	(1,825)	22,320
Finished goods	154,881	(11,374)	143,507	132,967	(10,264)	122,703
Half-finished goods	44,340	(1,374)	42,966	40,790	(988)	39,802
Work in progress	2,006	-	2,006	5,400	-	5,400
Raw materials	639,521	(233)	639,288	666,967	(268)	666,699
Materials	42,302	(1,588)	40,714	40,094	(6,302)	33,792
Supplies	53,443	-	53,443	49,188	-	49,188
By-products	6,711	-	6,711	5,140	-	5,140
Buildings under construction ¹	86,821	-	86,821	61,597	-	61,597
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate ¹	99,715	-	99,715	62,906	-	62,906
Goods in transit	26,915	-	26,915	52,093	(127)	51,966
Total	1,180,822	(17,640)	1,163,182	1,142,777	(19,774)	1,123,003

¹Includes ₩43,541 million of transfers from investment properties for the six-month period ended June 30, 2023, and ₩714 million of transfers from property, plant and equipment and ₩80,807 million of transfers from investment properties for the year ended December 31, 2022.

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		June 30, 2022	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Cost of sales:				
Rereversal on valuation of inventories	(55)	(2,134)	(299)	(2,150)
Loss on obsolescence of inventories	1,867	4,548	522	2,307
Other expenses:				
Loss on obsolescence of inventories	260	260	-	-
Total	2,072	2,674	223	157

7. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of June 30, 2023 and December 31, 2022, are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	June 30, 2023		December 31, 2022	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.53 \	1,830	12.53 \	1,830
	KORAMCO Banpo PFV Co., Ltd. ^{1,2}	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
	KOCREF 36 REIT	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	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. ⁴	Korea	Real estate development and sales business	56.74	17,022	56.74	17,022
	INNODIS Co., Ltd. ¹	Korea	Game, advertizing agency	19.64	55	19.64	55
	SJ BIO MED Co., Ltd. ^{1,6}	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	21.92	-	22.73	-
Joint ventures	Mirae Asset KT&G Investment Fund I	Korea	Investment	45.00	9,000	45.00	4,500
	KORAMCO Europe Private REIT 3-2 Fund ⁵	Germany	Renting of real estate	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			\	270,395	\	265,895

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.

²As of June 30, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan (see Notes 24.(c)).

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 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.

⁵The 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.

⁶ As of June 30, 2023, reporting of business closure and liquidation procedures are in progress.

7. Investments in Associates and Joint Ventures (Continued)

For the six-month period ended June 30, 2023, the Company additionally acquired 45 shares of equity securities of Mirae Asset KT&G Investment Fund I at ₩4,500 million (For the year ended December 31, 2022: 45 shares for ₩4,500 million).

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 stocks 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 June 30, 2023 and December 31, 2022, are as follows:

(in millions of Korean won)

Name of entity	Location	Principal operation	June 30, 2023		December 31, 2022	
			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.	Türkiye	Manufacturing and selling tobaccos	99.99	52,649	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	-
Cosmococ 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 Trisakti Purwosari Makmur ²	Indonesia	Manufacturing and selling tobacco	6.56	1,162	-	-
PT KT&G Indonesia ²	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. ³	Korea	Real estate development and sales business	38.25	35,552	-	-
				\ 1,351,278		\ 1,230,060

8. Investments in subsidiaries (Continued)

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

²PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged with PT KT&G Indonesia, the subsidiary of the Company, during the six-month period ended June 30, 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 June 30, 2023.

³The Company acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries.

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 six-month period ended June 30, 2023.

The Company newly established KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the six-month period ended June 30, 2023, through capital investment of ₩18,510 million and ₩16,188 million, respectively.

The Company acquired 3,825 preferred stocks with voting rights (₩35,552 million) of DNC Deogeun Co., Ltd., during the six-month period ended June 30, 2023.

(b) Impairment

The Company assess 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 impairment indicators have been identified since the book value of net assets of the subsidiaries were lower than the book value of subsidiaries due to continuous accumulation of operating losses and etc. Details of such impairment losses recognized for the six-month periods ended June 30, 2023 and 2022, are as follows:

(in millions of Korean won)

Name of entity	June 30, 2023	June 30, 2022	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	4,390	-	Fair value less costs to sell
SangSang Stay Inc.	266	2,921	Fair value less costs to sell
	\ 4,656 \	\ 2,921 \	

On the other hand, fair value has been assessed using the adjusted net asset method and is classified as Level 3 in 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 six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance	1,177,839	1,128,957
Acquisition	68,944	33,816
Disposal/Impairment	(8,144)	(1,674)
Depreciation	(50,366)	(49,505)
Reclassification and others ¹	(16,445)	(30,348)
Ending balance	<u>1,171,828</u>	<u>1,081,246</u>

¹Includes ₩16,445 million of transfers to investment properties for the six-month period ended June 30, 2023, and ₩29,404 million of transfers to investment properties, ₩714 million of transfers to inventories and ₩230 million of transfers to intangible assets for the six-month period ended June 30, 2022.

10. Intangible Assets

Changes in intangible assets for the six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance	122,485	97,363
Acquisition	19,835	19,642
Disposal/Impairment	(123)	(406)
Amortization	(9,517)	(4,723)
Reclassification and others	(13)	230
Ending balance	<u>132,667</u>	<u>112,106</u>

11. Investment Properties

Changes in investment properties for the six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance	1,029,217	1,128,470
Acquisition	3,001	3,565
Disposal/Impairment	(1,775)	-
Depreciation	(13,824)	(13,109)
Reclassification and others ¹	(27,096)	6,758
Ending balance	<u>989,523</u>	<u>1,125,684</u>

¹Includes ₩16,445 million of transfers from property, plant and equipment and ₩43,541 million of transfers to inventories for the six-month period ended June 30, 2023, and ₩29,404 million of transfers from property, plant and equipment and ₩22,647 million of transfers to assets held for sale for the six-month period ended June 30, 2022.

12. Right-of-use Assets

Changes in right-of-use assets for the six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance	25,640	22,644
Acquisition	3,735	3,351
Disposal/Change	(267)	(156)
Depreciation	(4,981)	(4,499)
Ending balance	<u>24,127</u>	<u>21,340</u>

13. Assets Held for Sale

Changes in assets held for sale for the six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Beginning balance	-	14,901
Disposal	-	(38,707)
Reclassification ¹	-	23,806
Ending balance	<u>-</u>	<u>-</u>

¹Includes ₩22,647 million of transfers from investment properties, and ₩1,159 million of transfers from investment in associates for the six-month period ended June 30, 2022.

14. Borrowings

Details of short-term borrowings as of June 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>Lender</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Limit loan	NH Nonghyup Bank	-	19
Consumer credit agreements ¹	NH Nonghyup Bank	-	75
	Hana Card	-	19
	Subtotal	-	94
	Total	-	113

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 is incurred on payment guarantees.

15. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>		<u>June 30, 2022</u>	
	<u>Three-month period ended</u>	<u>Six-month period ended</u>	<u>Three-month period ended</u>	<u>Six-month period ended</u>
Defined benefit plan:				
Current service cost	6,835	13,670	7,948	15,895
Net interest on net defined benefit liabilities (assets)	(1,030)	(2,059)	(74)	(148)
Subtotal	5,805	11,611	7,874	15,747
Defined contribution plan:				
Contributions recognized as expense	968	2,760	946	2,720
Other long-term employee benefits:				
Current service cost, etc.	2,106	3,001	1,011	2,052
Termination benefits:				
Voluntary retirements, etc.	-	355	-	1,772
Total	8,879	17,727	9,831	22,291

(b) Details of net defined benefit liabilities (assets) as of June 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Present value of defined benefit obligations	375,241	353,822
Fair value of plan assets	(419,381)	(433,276)
Total	(44,140)	(79,454)

16. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	2,947	-	4,172	-
Refund liabilities	5,275	1,633	5,197	1,592
Provision for site restoration	85	101	84	102
Provision for financial guarantee	77	-	-	134
Provision for greenhouse gases	70	-	194	-
Total	8,454	1,734	9,647	1,828

(b) Changes in refund liabilities and provisions for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,172	98	(1,323)	2,947
Refund liabilities	6,789	130	(11)	6,908
Provision for site restoration	186	-	-	186
Provision for financial guarantee	134	-	(57)	77
Provision for greenhouse gases	194	-	(124)	70
Total	11,475	228	(1,515)	10,188

(in millions of Korean won)

	June 30, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,915	-	(1,400)	3,515
Refund liabilities	5,526	376	-	5,902
Provision for site restoration	141	-	-	141
Provision for financial guarantee	271	-	(78)	193
Provision for greenhouse gases	269	-	(208)	61
Total	11,122	376	(1,686)	9,812

17. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sale contracts for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	June 30, 2023					
			Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ¹
Suwon Hwaseo Prugio Briciel	June, 2020	September, 2023	92.29	803,056	750,352	692,472	65,781	313,022
ePyeonghansesang Daejeon station Centum Vista	December, 2022	June, 2026	7.82	226,951	132,491	10,360	9,835	8,319
Nokbeon-dong mixed-use building	April, 2023	February, 2025	12.71	29,720	25,220	3,207	3,207	2,101
Elif Mia station Complex 1	May, 2023	August, 2026	4.29	61,529	7,106	305	305	218
Elif Mia station Complex 2	May, 2023	August, 2026	4.26	155,078	46,726	1,993	1,993	1,364
Total				1,276,334	961,895	708,337	81,121	325,024

¹Excludes the cumulative cost for common infrastructure, amounting to ₩105,273 million.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	June 30, 2022					
			Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹	Cost (cumulative) ²
Suwon Hwaseo Prugio Briciel	June, 2020	September, 2023	53.48	791,406	750,989	401,641	156,766	180,658

¹Excludes ₩4,198 million of sales revenue of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of June 30, 2022.

²Excludes the cumulative cost for common infrastructure, amounting to ₩62,345 million.

17. Real Estate Pre-sales Contracts (Continued)

(b) Receivables and payables for ongoing real estate pre-sale contracts as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

Construction project	June 30, 2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel ePyeonghangesang	692,472	455,633	242,154	5,315
Daejeon station Centum Vista Nokbeon-dong mixed-use building	10,360	13,773	-	3,413
Elif Mia station Complex 1	3,207	-	3,207	-
Elif Mia station Complex 2	305	870	-	565
Elif Mia station Complex 2	1,993	5,586	-	3,593
Total	708,337	475,862	245,361	12,886

(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 ePyeonghangesang	626,691	375,778	252,461	1,548
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 six-month period ended June 30, 2023. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until June 30, 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 and six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		June 30, 2022	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Salaries	74,248	151,812	69,515	142,582
Retirement and termination benefits	4,564	9,958	6,048	14,154
Employee welfare	11,427	20,061	9,847	18,446
Travel expenses	3,805	6,461	3,216	4,813
Communication cost	709	1,402	764	1,428
Utilities	2,494	6,720	2,616	5,814
Taxes and dues	22,230	24,110	21,900	23,168
Supplies	448	1,339	447	901
Rent	1,419	3,642	1,367	3,628
Depreciation	8,289	16,647	8,046	16,930
Amortization	4,769	9,448	2,827	4,668
Repairs and maintenance	1,117	1,577	1,266	1,900
Vehicles	788	1,585	1,024	1,855
Insurance	262	654	222	405
Commissions	41,709	80,863	39,712	74,435
Freight and custody	5,866	11,252	4,966	9,382
Conferences	713	1,551	717	1,166
Advertising	23,778	40,595	28,137	49,031
Education and training	1,587	3,004	679	1,478
Prizes and rewards	472	779	471	646
Research and development	4,812	8,289	5,100	7,997
Reversal of impairment loss on trade receivables	(10,230)	(6,907)	(4,729)	(469)
Total	205,276	394,842	204,158	384,358

19. Other Income and Expenses

(a) Details of other income for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		June 30, 2022	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Gain on foreign currency transaction	9,902	15,849	14,567	18,934
Gain on foreign currency translation	7,481	69,983	154,449	189,328
Gain on valuation of derivatives	759	4,564	-	-
Reversal of impairment loss on other receivables	3,621	-	781	1,539
Gain on disposal of property, plant and equipment	10	1,401	2,787	2,787
Gain on disposal of investment properties	4,110	6,732	-	-
Gain on lease contract adjustments	13	31	3	3
Gain on disposal of assets held for sale	-	-	10,967	32,037
Gain on disposal of investments in associates and joint ventures	-	-	-	4,359
Miscellaneous income	4,604	7,970	1,923	5,292
Total	30,500	106,530	185,477	254,279

19. Other Income and Expenses (Continued)

(b) Details of other expenses for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		June 30, 2022	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Loss on foreign currency transaction	2,244	8,972	5,282	8,064
Loss on foreign currency translation	16,027	18,759	-	1,421
Loss on valuation of derivatives	4,018	13,416	23,875	28,961
Loss on impairment of other receivables	-	951	509	895
Loss on disposal of property, plant and equipment	1,715	1,729	198	215
Loss on impairment of property, plant and equipment	5,917	5,917	511	511
Loss on disposal of intangible assets	-	-	9	16
Loss on impairment of intangible assets	60	123	58	91
Gain on disposal of investment properties	-	59	-	-
Loss on disposal of assets held for sale	-	-	-	1,218
Loss on impairment of investments in subsidiaries	4,390	4,656	1,005	2,921
Loss on lease contract adjustments	4	6	3	4
Donations	474	1,011	617	1,690
Miscellaneous loss	843	3,600	-	210
Total	35,692	59,199	32,067	46,217

20. Finance Income and Costs

Details of finance income and costs for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023		June 30, 2022	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Finance income:				
Interest income ¹	14,710	28,570	5,188	8,418
Dividend income	8,833	50,564	7,897	37,712
Gain on valuation of financial assets measured at fair value through profit or loss	15,112	34,929	8,775	28,369
Total finance income	38,655	114,063	21,860	74,499
Finance costs:				
Interest expense	1,735	2,644	526	1,010
Loss on valuation of financial assets measured at fair value through profit or loss	-	1,944	9,311	21,057
Other financial expense	-	-	-	10,300
Total finance costs	1,735	4,588	9,837	32,367
Net finance income	36,920	109,475	12,023	42,132

¹The 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 fiscal year. The average effective tax rates for the six-month periods ended June 30, 2023 and 2022, are 27.45% and 27.18%, respectively.

22. Related Parties

(a) Details of the Company's related parties as of June 30, 2023 and December 31, 2022 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)						
			June 30, 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 Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	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	
	Cosmococ 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 ²	Indonesia	-	-	-	99.99	-	99.99	
	PT Trisakti Purwosari Makmur ²	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	
	Mastern No.144 PFV Co., Ltd.	Korea	92.50	-	92.50	92.50	-	92.50	
	KT&G Global Kazakhstan LLP ³	Kazakhstan	100.00	-	100.00	-	-	-	
	KT&G Kazakhstan LLP ³	Kazakhstan	100.00	-	100.00	-	-	-	
	DNC Deogeun Co., Ltd. ⁴	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. ⁵	Korea	12.53	-	12.53	12.53	-	12.53
KORAMCO Banpo PFV Co., Ltd. ⁵		Korea	18.95	-	18.95	18.95	-	18.95	
KORAMCO Dongjak PFV Co., Ltd. ⁵		Korea	19.47	-	19.47	19.47	-	19.47	
KOCREF 36 REIT		Korea	21.01	-	21.01	21.01	-	21.01	
KOCREF 41 REIT ⁶		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. ⁷		Korea	56.74	-	56.74	56.74	-	56.74	
INNODIS Co., Ltd. ⁵		Korea	19.64	-	19.64	19.64	-	19.64	
SJ BIO MED Co., Ltd. ^{5,8}		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 ⁹		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 ¹⁰	Germany	51.35	-	51.35	51.35	-	51.35
		Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00

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

22. Related Parties (Continued)

²PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged PT KT&G Indonesia, the subsidiary of the Company, during the six-month period ended June 30, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makur 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 June 30, 2023.

³The Company acquired 100% of KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the six-month period ended June 30, 2023, and the Company has classified the shares as investments in subsidiaries.

⁴The Company acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries.

⁵The 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.

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 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.

⁸As of June 30, 2023, reporting of business closure and liquidation procedures are in progress

⁹The 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.

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.

22. Related Parties (Continued)

(b) The Company conducts transactions with related parties, such as sales of goods and provision of services, etc. Details of transactions with related parties for the three-month and six-month periods ended June 30, 2023 and 2022 are as follows:

① Sales and other income

(in millions of Korean won)

Type	Name of entity	June 30, 2023		June 30, 2022		
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	
Subsidiaries	Korea Ginseng Corporation	3,552	7,002	2,388	4,720	
	Yungjin Pharm. Co., Ltd.	358	565	120	211	
	Tae-A Industrial Co., Ltd.	253	385	115	223	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	7,254	15,438	4,349	7,413	
	Korea Tabacos do Brasil Ltda. ¹	-	-	1	2	
	KT&G Rus L.L.C. ¹	11,895	23,830	17,840	25,703	
	KT&G USA Corporation ¹	9	9	-	-	
	Cosmococ Co., Ltd.	28	40	7	12	
	PT KT&G Indonesia ¹	-	-	139	269	
	PT Trisakti Purwosari Makmur ¹	16,944	29,047	12,463	22,356	
	SangSang Stay Inc.	1,231	2,458	1,216	2,442	
	KT&G Global Rus L.L.C. ¹	2,499	3,578	12	176	
	Gwacheon Sangsang PFV. Inc.	-	36,939	-	20,824	
	KGCyebon Corporation	9	16	6	10	
	KT&G Kazakhstan LLP	3	4	-	-	
	KT&G Global Kazakhstan LLP	59	59	-	-	
	KT&G Taiwan Corporation	3,344	6,573	171	171	
	KGC Life&Gin Co., Ltd.	17	30	19	38	
	Associates	KOCREF 36 REIT	600	600	600	600
		KOCREF 41 REIT	914	914	822	822
AndaStation Professional Investment Private REIT No.1		473	473	-	-	
Joint ventures	Kiwoom Milestone Private REIT No.16	-	-	-	793	
	KORAMCO Europe Private REIT 3-2 Fund	-	-	648	648	
	Total	49,442	127,960	40,916	87,433	

¹Excludes impairment loss of ₩10,358 million and ₩2,185 million in relation to the related parties for the six-month periods ended June 30, 2023 and 2022.

② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	June 30, 2023		June 30, 2022	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Subsidiaries	Korea Ginseng Corporation	238	587	366	708
	Yungjin Pharm. Co., Ltd.	-	222	23	246
	Tae-A Industrial Co., Ltd.	9,815	19,137	7,830	14,442
	Cosmococ Co., Ltd.	1	3	11	17
	SangSang Stay Inc.	65	138	55	62
	KGCyebon Corporation	16	412	205	412
	KGC Life&Gin Co., Ltd.	3	3	3	7
	PT Trisakti Purwosari Makmur	14	14	-	7
Associate	INNODIS Co., Ltd.	74	123	96	530
Joint venture	Starfield Suwon Inc.	-	-	-	68
	Total	10,226	20,639	8,589	16,499

22. Related Parties (Continued)

(c) Details of account balances of receivables and payables with related parties as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2023		December 31, 2022	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	1,288	2,241	14	2,210
	Yungjin Pharm. Co., Ltd. ²	4,870	50	-	67
	Tae-A Industrial Co., Ltd.	-	9,705	-	4,492
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	56,030	-	46,130	-
	Korea Tabacos do Brasil Ltda. ^{1,2}	122	-	122	-
	KT&G Pars ^{1,2}	44,526	-	44,526	-
	KT&G Rus L.L.C. ¹	84,267	-	70,857	-
	KT&G USA Corporation ¹	53,103	328	53,094	317
	Cosmococ Co., Ltd.	25	-	-	-
	SangSang Stay Inc.	4	-	-	-
	PT KT&G Indonesia ^{1,2}	-	-	26,296	-
	PT Trisakti Purwosari Makmur ^{1,2}	192,361	9	100,450	-
	KT&G Global Rus L.L.C. ¹	4,658	-	167	-
	Gwacheon SangSang PFV. Inc. ³	57,763	-	21,079	-
	KGCyebon Corporation	-	8,056	-	8,362
	KGC Life&Gin Co., Ltd.	-	-	-	115
	KT&G Kazakhstan LLP	4	-	-	-
	KT&G Global Kazakhstan LLP	100	-	-	-
	KT&G Taiwan Corporation	1,929	-	4,380	-
	Associates	AndaStation Professional Investment Private REIT No.1	-	-	481
INNODIS Co., Ltd.		-	-	-	35
Joint ventures	Starfield Suwon Inc.	-	-	70	-
	Total	501,050	20,389	367,666	15,598

¹Presented in total amount before deducting loss allowance of ₩148,100 million and ₩137,742 million as of June 30, 2023 and December 31, 2022.

²Includes loans to related parties.

³Includes dividends receivable to related parties.

(d) Details of purchase and sale of property, plant and equipment with related parties for the six-month periods ended June 30, 2023 and 2022 is as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2023	June 30, 2022
		Sale of property, plant and equipment	Sale of property, plant and equipment
Subsidiary	PT Trisakti Purwosari Makmur	3,120	12,119

22. Related Parties (Continued)

(e) Details of fund transactions with related parties for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2023			June 30, 2022		
		Equity investment	Repayment of lease liabilities	Loan of Fund	Equity investment	Repayment of lease liabilities	Equity recovery
Subsidiaries	SangSang Stay Inc.	30,000	-	-	-	-	-
	Yungjin Pharm. Co., Ltd.	-	-	4,500	-	-	-
	KGCyebon Corporation	-	306	-	-	301	-
	PT Trisakti Purwasari Makmur	-	-	58,627	-	-	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	25,623	-	-	-	-	-
	KT&G Kazakhstan LLP	16,188	-	-	-	-	-
	KT&G Global Kazakhstan LLP	18,510	-	-	-	-	-
	DNC Deogeun Co., Ltd.	35,552	-	-	-	-	-
	Associates	KOCREF 41 REIT	-	-	-	29,489	-
Others	Mirae Asset KT&G Investment Fund I	4,500	-	-	-	-	-
	KORAMCO Ocheon PFV Co., Ltd. ¹	-	-	-	-	-	24,353
	KORAMCO Amsa PFV Co., Ltd. ²	-	-	-	-	-	1,749
	Total	130,373	306	63,127	29,489	301	36,381

¹The Company excluded the entity from related parties, as the entity was sold to the third-party during the six-month period ended June 30, 2022.

²Since the entity was fully liquidated during the six-month period ended June 30, 2022, it is excluded from related parties.

(f) As of June 30, 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 six-month period ended June 30, 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 June 30, 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.

22. Related Parties (Continued)

(k) As of June 30, 2023, the Company has entered into a capital call agreement in relations 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 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 June 30, 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 six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Short-term and long-term employee benefits	10,376	9,950
Retirement benefits	966	1,209
Total	<u>11,342</u>	<u>11,159</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 flows 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, which may be caused by the changes in market prices of listed stocks the Company invests in. 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.

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 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 June 30, 2023.

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

The Company is exposed to credit risk that one of the contracting parties to the financial instrument may incur financial losses 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.

As of June 30, 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 the 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 flows 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 June 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Financial assets:		
Financial assets measured at fair value through profit or loss ¹	558,533	1,044,615
Financial assets measured at fair value through other comprehensive income or loss	157,533	159,228
Derivative assets	1,585	23,069
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	328,420	601,644
Other financial assets	160,950	180,950
Trade and other receivables	1,565,130	1,436,857
Long-term deposits	1,492,799	1,437,130
Subtotal	<u>3,547,299</u>	<u>3,656,581</u>
Total financial assets	<u>4,264,950</u>	<u>4,883,493</u>
Financial liabilities:		
Derivative liabilities	1,273	-
Financial liabilities measured at amortized cost		
Short-term borrowings	-	113
Trade and other payables	635,598	900,384
Lease liabilities	21,853	24,340
Subtotal	<u>657,451</u>	<u>924,837</u>
Total financial liabilities	<u>658,724</u>	<u>924,837</u>

¹As of June 30, 2023, the money market trust amounting to ₩32,950 million (December 31, 2022: ₩337,906 million) that is included in cash equivalents is classified as the financial assets measured at fair value through profit or loss.

(e) When measuring the fair value of an asset or a liability, the 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 values of financial instruments measured by each fair value hierarchy as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss ¹	558,533	-	214,809	343,724
Fair value through other comprehensive income or loss	157,533	148,533	-	9,000
Derivative assets	1,585	-	1,585	-
Total financial assets	717,651	148,533	216,394	352,724
Derivative liabilities	1,273	-	1,273	-

¹As of June 30, 2023, the money market trust amounting to ₩32,950 million that is included in cash equivalents is classified as the 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
Fair value through profit or loss ¹	1,044,615	-	693,490	351,125
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, the money market trust amounting to ₩337,906 million that is included in cash equivalents is classified as the financial assets measured at fair value through profit or loss.

There is no movement between the levels of fair value hierarchy during the six-month period ended June 30, 2023 and the year ended December 31, 2022.

As of June 30, 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.

The changes in Level 3 fair value for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023	June 30, 2022
Beginning balance	360,125	312,642
Acquisition	8,962	29,042
Disposal	(27,987)	-
Transfers	-	(28,300)
Changes in fair value	11,624	1,729
Ending balance	352,724	315,113

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

(f) Details of net gain or loss by each financial instrument category for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023					Total
	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	\ - \	- \	- \	28,570 \	- \	28,570
Dividend income	6,066	5,572	-	-	-	11,638
Gain or loss on valuation	32,984	-	(8,852)	-	-	24,132
Gain on lease contract adjustments	-	-	-	-	25	25
Interest expense	-	-	-	-	(2,644)	(2,644)
Reversal of impairment loss	-	-	-	5,956	-	5,956
Total	\ 39,050 \	\ 5,572 \	\ (8,852) \	\ 34,526 \	\ (2,619) \	67,677
Other comprehensive income(loss) before tax:						
Net change in fair value	\ - \	(1,695) \	- \	- \	- \	(1,695)

(in millions of Korean won)

	June 30, 2022					Total
	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	\ - \	- \	- \	8,418 \	- \	8,418
Dividend income	6,810	7,215	-	-	-	14,025
Gain or loss on valuation	7,312	-	(28,961)	-	-	(21,649)
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(1,010)	(1,010)
Reversal of impairment loss	-	-	-	1,113	-	1,113
Total	\ 14,122 \	\ (3,085) \	\ (28,961) \	\ 9,531 \	\ (1,010) \	(9,403)
Other comprehensive income(loss) before tax:						
Net change in fair value	\ - \	(1,286) \	- \	- \	- \	(1,286)

24. Contingent Liabilities and Commitments

(a) Litigation cases

As of June 30, 2023, the Company has 7 pending litigations where the Company is in the position of the defendant, and the litigation amounts amount to ₩57,733 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 June 30, 2023.

(b) Commitments with financial institutions

The Company's major arrangements with financial institutions as of June 30, 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	97,037
Derivatives trading ¹	KB Kookmin Bank and five others	USD	323,500	62,716
Limit loan	NH Nonghyup Bank and three others	KRW	700,000	-

¹Derivatives consist of foreign exchange forward contracts, and are held for trading as of June 30, 2023.

As of June 30, 2023, the Company has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 119,150 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Payment guarantees and collaterals provided by other parties to the Company as of June 30, 2023 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	647,486	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	44,073	License guarantee, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of June 30, 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 June 30, 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 \	64,335	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 June 30, 2023 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment properties	\ 428,300 \	22,706 \	26,105	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
Other financial assets and other receivables	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	1,553	-	1,553	Korea Housing & 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 & NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. ¹
Total	\ 446,066 \	\ 113,303 \	\ 43,871 \		

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 June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	June 30, 2023	December 31, 2022
Other financial assets and other receivables	\ 10,310 \	10,310
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 ₩1,492,799 million in long-term deposits for MSA Escrow Fund as of June 30, 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 June 30, 2023, the Company has entered into 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, etc., with the ceiling of ₩110,692 million. As of June 30, 2023, the outstanding contribution amount is ₩68,931 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 June 30, 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.

24. Contingent Liabilities and Commitments (Continued)

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.

As of June 30, 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 has obligated to return infrastructure such as roads and neighborhood parks to Suwon-si City for free related to infrastructure construction of Suwon Hwaseo Prugio Briciel.

In relation to the sales project of Elif Mia station Complex 1 and 2, the Company has an obligation to sell a portion of the residential and commercial facilities built by the Company at a low price and to donate roads to Seoul-si City.

As of June 30, 2023, in relation to the Daejeon Station Centum Vista sales project, the Company has agreed with the constructor to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of ₩3 billion loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.

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 prompting the construction, the Company also promised to pay ₩10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until October 20, 2023.

During the six-month period ended June 30, 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.

As of June 30, 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 June 30, 2023.

24. Contingent Liabilities and Commitments (Continued)

The Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of June 30, 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 June 30, 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 EUR 750 million. 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 June 30, 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 consolidated financial statements as of June 30, 2023.

25. Cash Flows

Cash generated from operations for the six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2023	June 30, 2022
Profit for the six-month period ended June 30	457,657	608,342
Adjustments:		
Employee welfare	2,820	2,099
Retirement benefits	11,611	15,747
Loss on valuation or obsolescence of inventories	2,674	157
Depreciation	69,171	67,113
Amortization	9,517	4,723
Reversal of impairment loss on trade and other receivables	(5,956)	(1,113)
Loss on foreign currency translation	18,759	1,421
Loss on valuation of derivatives	13,416	28,961
Loss on disposal of property, plant and equipment	1,729	215
Loss on impairment of property, plant and equipment	5,917	511
Loss on disposal of intangible assets	-	16
Loss on impairment of intangible assets	123	91
Loss on disposal of investment properties	59	-
Loss on disposal of assets held for sale	-	1,218
Loss on impairment of investments in subsidiaries	4,656	2,921
Other expenses, etc.	(47)	201
Finance cost	4,588	32,367
Share based payment expense	79	-
Income tax expense	173,201	227,063
Gain on foreign currency translation	(69,983)	(189,328)
Gain on valuation of derivatives	(4,564)	-
Gain on disposal of property, plant and equipment	(1,401)	(2,787)
Gain on disposal of investment properties	(6,732)	-
Gain on disposal of assets held for sale	-	(32,037)
Gain on disposal of investments in associates and joint ventures	-	(4,359)
Other income, etc.	(3,461)	(2,473)
Finance income	(114,063)	(74,499)
Changes in working capital:		
Decrease (increase) in trade and other receivables	809	(308,917)
Decrease (increase) in derivatives	13,906	(14,738)
Decrease in inventories	688	56,376
Decrease (increase) in accrued tobacco excise and other taxes	(57,590)	145,995
Increase in advance payments	(32,936)	(23,943)
Decrease (increase) in prepaid expenses	(2,221)	2,750
Increase (decrease) in trade and other payables	(228,462)	166,207
Increase in advance receipts	7,769	4,181
Increase (decrease) in tobacco excise and other taxes payable	19,845	(65,152)
Increase in net defined benefit liabilities	2,228	1,822
Cash generated from operations	293,806	651,151

26. Subsequent Events

At the Board of Directors held on August 3, 2023, the Company decided to pay interim dividend of ₩139,536 million (₩1,200 per share) as of June 30, 2023, which is scheduled to be paid on August 23, 2023. The financial statements for the six-month period ended June 30, 2023 do not include such dividends payables.

According to the resolution of Board of Directors made on August 3, 2023, the Company plans to make additional investments in Starfield Suwon Inc. (₩123.3 billion), Cheongna Medipolis PFV Co., Ltd. (₩84 billion), and Tae-A industrial Co., Ltd. (₩65 billion).

According to the resolution of Board of Directors made on August 3, 2023, the Company plans to acquire and retire 3,470,000 shares of its treasury stock in 2023 through trading on the floor.

According to the resolution of the Board of Directors made on August 3, 2023, the Company plans to issue unsecured public bonds denominated in Korean won during the third quarter of 2023 for the purpose of enhancing corporate value and securing investment funds.