



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

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

## Table of contents

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

**Report on review of interim consolidated 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 consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of June 30, 2023, and the related interim consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2023 and 2022, interim consolidated statements of changes in equity and interim consolidated 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 consolidated financial statements**

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

**Auditor's responsibility**

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

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing ("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 consolidated financial statements are not prepared, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

### Other matter

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

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

## **Interim Consolidated Financial Statements**

**For the three-month and six-month periods ended June 30, 2023 and 2022**

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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

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



(in Korean won)

	Notes	June 30, 2023	December 31, 2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	22,23	₩ 889,035,026,495	₩ 1,401,018,438,794
Current other financial assets	22,23	247,830,115,887	201,074,895,450
Current financial assets measured at fair value through profit or loss	22	199,320,016,129	393,106,179,920
Trade and other receivables	5,16,21,22,23	1,715,265,730,233	1,528,511,308,801
Derivative assets	22,23	1,584,501,881	23,069,310,564
Inventories	6	2,562,587,244,837	2,575,842,017,001
Refund assets and others		1,014,433,571	983,881,594
Accrued tobacco excise and other taxes		390,988,862,130	276,181,191,834
Advance payments	23	155,770,993,106	51,089,949,308
Prepaid expenses		62,987,914,375	58,707,728,734
<b>Total current assets</b>		<b>6,226,384,838,644</b>	<b>6,509,584,902,000</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	55,633,040,127	42,826,342,939
Long-term deposits in MSA Escrow Fund	22,23	1,492,799,225,964	1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	22,23	333,374,956,814	320,429,121,314
Long-term trade and other receivables	5,22	140,025,694,006	108,476,071,963
Long-term financial assets measured at fair value through other comprehensive income or loss	22	215,860,332,426	206,493,540,726
Investments in associates and joint ventures	4,7,21,23	274,905,133,384	274,534,172,041
Property, plant and equipment	8,23	1,881,249,177,945	1,837,040,709,535
Intangible assets	9	175,950,317,810	167,851,437,108
Investment properties	10,23	1,014,508,350,653	1,071,463,087,867
Right-of-use assets	11	45,310,006,686	40,243,871,545
Long-term advance payments	23	152,280,835,469	113,065,628,589
Long-term prepaid expenses		11,994,694,941	7,130,744,259
Deferred tax assets	20	41,514,020,277	55,757,878,436
Net defined benefit assets	14,21	69,531,649,030	109,687,902,060
<b>Total non-current assets</b>		<b>5,904,937,435,532</b>	<b>5,792,130,881,797</b>
<b>Total assets</b>		<b>₩ 12,131,322,274,176</b>	<b>₩ 12,301,715,783,797</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	₩ 71,896,185,110	₩ 72,629,448,270
Current portion of long-term borrowings	13,22,23	18,844,443,949	4,125,980,000
Trade and other payables	21,22,23	1,319,525,552,821	1,505,796,123,059
Current lease liabilities	22	17,518,978,781	16,558,862,968
Derivative liabilities	22,23	1,272,978,598	-
Advance receipts	16	29,956,211,432	21,492,888,395
Current refund liabilities and provisions	15,23	34,632,088,327	21,562,642,092
Current tax liabilities	20	166,813,497,006	218,730,043,068
Tobacco excise and other taxes payables		761,296,679,584	666,419,286,276
<b>Total current liabilities</b>		<b>2,421,756,615,608</b>	<b>2,527,315,274,128</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13,22,23	87,350,496,306	78,807,990,962
Long-term trade and other payables	22,23	55,393,524,742	52,895,766,396
Long-term lease liabilities	22	23,178,484,509	21,049,801,579
Long-term advance receipts	16	3,529,511,308	2,567,527,585
Net defined benefit liabilities	14,21	34,823,799,361	32,477,623,143
Long-term refund liabilities and provisions	15,23	4,429,104,776	18,953,749,083
Deferred tax liabilities	20	197,489,442,613	181,299,216,741
Non-controlling interests liabilities	22	12,544,853,016	27,768,802,788
<b>Total non-current liabilities</b>		<b>418,739,216,631</b>	<b>415,820,478,277</b>
<b>Total liabilities</b>		<b>₩ 2,840,495,832,239</b>	<b>₩ 2,943,135,752,405</b>

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		4,866,854,637	4,497,785,722
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		7,222,873,212,017	6,812,285,552,594
Retained earnings		1,718,213,334,708	2,251,940,435,833
<b>Equity attributable to owners of the Parent Company</b>		<u>9,192,874,025,889</u>	<u>9,315,644,398,676</u>
<b>Non-controlling interest</b>		<u>97,952,416,048</u>	<u>42,935,632,716</u>
<b>Total equity</b>	₩	<u>9,290,826,441,937</u>	₩ <u>9,358,580,031,392</u>
<b>Total liabilities and equity</b>	₩	<u>12,131,322,274,176</u>	₩ <u>12,301,715,783,797</u>

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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
<b>Continuing operations</b>				
Sales	4,16 \ 1,335,994,924,072 \	2,731,665,104,074 \	1,417,499,092,398 \	2,820,066,587,980
Cost of sales	(685,100,949,293)	(1,372,477,585,938)	(691,183,409,115)	(1,364,911,618,704)
<b>Gross profit</b>	<b>650,893,974,779</b>	<b>1,359,187,518,136</b>	<b>726,315,683,283</b>	<b>1,455,154,969,276</b>
Selling, general and administrative expenses	17,21 (404,787,854,155)	(796,534,876,564)	(398,686,523,446)	(794,518,835,355)
<b>Operating profit</b>	<b>4 246,106,120,624</b>	<b>562,652,641,572</b>	<b>327,629,159,837</b>	<b>660,636,133,921</b>
Other income	18,22 49,653,232,526	145,724,856,047	191,704,642,029	265,294,234,059
Other expenses	18,21,22 (53,833,420,462)	(87,613,544,464)	(44,798,485,342)	(71,016,051,702)
Finance income	19,21,22 40,137,571,306	81,252,585,705	21,066,267,636	53,796,412,886
Finance costs	19,22 (5,137,520,928)	(28,832,960,604)	(16,345,638,525)	(47,267,793,696)
Share of net profit (loss) of associates and joint ventures	7 (856,922,635)	(2,614,450,795)	826,320,823	14,792,022,187
Loss arising from net monetary assets	(408,017,431)	(2,264,347,175)	-	-
<b>Profit before income tax</b>	<b>275,661,043,000</b>	<b>668,304,780,286</b>	<b>480,082,266,458</b>	<b>876,234,957,655</b>
Income tax expense	20 (72,413,699,179)	(188,202,766,156)	(139,797,253,356)	(268,200,652,583)
<b>Profit from continuing operations</b>	<b>203,247,343,821</b>	<b>480,102,014,130</b>	<b>340,285,013,102</b>	<b>608,034,305,072</b>
<b>Discontinued operation</b>				
Loss from discontinued operation	25 (1,321,125,058)	(3,947,812,198)	(1,439,685,280)	(5,813,330,471)
<b>Profit for the period</b>	<b>\ 201,926,218,763 \</b>	<b>\ 476,154,201,932 \</b>	<b>\ 338,845,327,822 \</b>	<b>\ 602,220,974,601</b>
<b>Other comprehensive income (loss) for the period after income tax</b>				
Items that will not be reclassified to profit or loss in subsequent periods				
Re-measurements of net defined benefit liabilities	\ (14,654,996,661) \	(15,959,418,479) \	194,000,496 \	(482,519,451)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	22 2,627,390,627	7,214,502,455	(12,538,632,770)	3,481,958,612
Capital changes in equity method	7 3,885,483	7,638,315	(151,023,696)	(151,637,733)
Items that will be reclassified to profit or loss in subsequent periods				
Exchange differences on translating foreign operations	(20,534,696,755)	(4,130,948,366)	59,210,293,361	60,583,778,186
Capital changes in equity method	7 (104,993,317)	(104,993,317)	-	-
	(32,663,410,623)	(12,973,219,392)	46,714,637,391	63,431,579,614
<b>Total comprehensive income for the period</b>	<b>\ 169,262,808,140 \</b>	<b>\ 463,180,982,540 \</b>	<b>\ 385,559,965,213 \</b>	<b>\ 665,652,554,215</b>
<b>Profit for the period is attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations	\ 202,119,435,235 \	475,247,971,639 \	340,977,910,639 \	609,418,842,148
Loss from discontinued operation	25 (1,321,125,058)	(3,947,812,198)	(1,439,685,280)	(5,813,330,471)
Profit attributable to owners of the Parent Company	<u>200,798,310,177</u>	<u>471,300,159,441</u>	<u>339,538,225,359</u>	<u>603,605,511,677</u>
Non-controlling interests				
Profit (loss) from continuing operations	1,127,908,586	4,854,042,491	(692,897,537)	(1,384,537,076)
Loss from discontinued operation	25 -	-	-	-
Profit (loss) attributable to non-controlling interests	<u>1,127,908,586</u>	<u>4,854,042,491</u>	<u>(692,897,537)</u>	<u>(1,384,537,076)</u>
<b>Total</b>	<b>\ 201,926,218,763 \</b>	<b>\ 476,154,201,932 \</b>	<b>\ 338,845,327,822 \</b>	<b>\ 602,220,974,601</b>
<b>Total comprehensive income (loss) for the period attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations	\ 169,669,888,805 \	463,505,980,784 \	389,656,030,686 \	675,365,780,486
Loss from discontinued operation	25 (1,563,364,798)	(5,245,807,486)	(3,399,282,382)	(8,317,455,092)
Total comprehensive income attributable to owners of the Parent Company	<u>168,106,524,007</u>	<u>458,260,173,298</u>	<u>386,256,748,304</u>	<u>667,048,325,394</u>
Non-controlling interests				
Gain (loss) from continuing operations	1,156,284,133	4,920,809,242	(696,783,091)	(1,395,771,179)
Loss from discontinued operation	25 -	-	-	-
Total comprehensive income (loss) attributable to non-controlling interests	<u>1,156,284,133</u>	<u>4,920,809,242</u>	<u>(696,783,091)</u>	<u>(1,395,771,179)</u>
<b>Total</b>	<b>\ 169,262,808,140 \</b>	<b>\ 463,180,982,540 \</b>	<b>\ 385,559,965,213 \</b>	<b>\ 665,652,554,215</b>
<b>Earnings (losses) per share</b>				
Basic and diluted earnings (losses) per share				
From continuing operations	\ 1,738 \	4,087 \	2,842 \	5,079
From discontinued operation	(11)	(34)	(12)	(48)
	<u>\ 1,727 \</u>	<u>4,053 \</u>	<u>2,830 \</u>	<u>5,031</u>

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



# KT&G Corporation and Its Subsidiaries

## Interim Consolidated 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	Owners of the parent	Non-controlling Interest	Total equity
<b>Balance as of January 1, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,490,161,242,572	₩ 2,060,255,463,296	₩ 9,158,786,200,927	₩ 50,075,952,125	₩ 9,208,862,153,052
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	603,605,511,677	603,605,511,677	(1,384,537,076)	602,220,974,601
Profit (loss) for the period	-	-	-	-	-	(473,448,299)	(473,448,299)	(9,071,152)	(482,519,451)
Other comprehensive income (loss) for the period:	-	-	-	-	3,481,958,612	-	3,481,958,612	-	3,481,958,612
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain 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)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	60,585,941,137	-	60,585,941,137	(2,162,951)	60,583,778,186
Capital changes in equity method	-	-	-	-	(151,637,733)	-	(151,637,733)	-	(151,637,733)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	72,246,483,016	(8,803,669,299)	63,442,813,717	(11,234,103)	63,431,579,614
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	72,246,483,016	594,801,842,378	667,048,325,394	(1,395,771,179)	665,652,554,215
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	(575,903,630,400)	-	(575,903,630,400)
<b>Balance as of June 30, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,863,620,646,067	₩ 1,777,940,754,795	₩ 9,249,930,895,921	₩ 48,680,180,946	₩ 9,298,611,076,867
<b>Balance as of January 1, 2023</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (1,235,932,914,379)	₩ 528,894,053,906	₩ 6,812,285,552,594	₩ 2,251,940,435,833	₩ 9,315,644,398,676	₩ 42,935,632,716	₩ 9,358,580,031,392
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	471,300,159,441	471,300,159,441	4,854,042,491	476,154,201,932
Profit for the period	-	-	-	-	-	(16,026,082,169)	(16,026,082,169)	66,663,690	(15,959,418,479)
Other comprehensive income (loss) for the period:	-	-	-	-	7,214,502,455	-	7,214,502,455	-	7,214,502,455
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	(4,131,051,427)	-	(4,131,051,427)	103,061	(4,130,948,366)
Exchange differences on translating foreign operations	-	-	-	-	(97,355,002)	(16,026,082,169)	(97,355,002)	66,766,751	(97,355,002)
Capital changes in equity method	-	-	-	-	2,986,096,026	455,274,077,272	458,260,173,298	4,920,809,242	463,180,982,540
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	(581,399,615,000)	(581,399,615,000)	-	(581,399,615,000)
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	407,601,563,397	(407,601,563,397)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Transfer to other reserve	-	-	-	-	-	-	-	50,095,974,090	50,095,974,090
Change in non-controlling interest, etc.	-	-	-	-	-	-	-	-	-
Share options	-	-	-	-	369,068,915	(989,001,178,397)	369,068,915	-	369,068,915
<b>Balance as of June 30, 2023</b>	₩ 954,959,485,000	₩ 4,866,854,637	₩ (1,235,932,914,379)	₩ 528,894,053,906	₩ 7,222,873,212,017	₩ 1,718,213,334,708	₩ 9,192,874,025,889	₩ 97,952,416,048	₩ 9,290,826,441,937

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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
<b>Net cash flows provided by operating activities</b>			
Cash generated from operations	24	₩ 131,731,185,950	₩ 641,906,226,201
Income taxes paid		(227,252,573,967)	(220,665,192,236)
<b>Net cash flows provided by (used in) investing activities</b>		(71,218,783,923)	134,234,657,892
Interest received		29,663,890,977	7,606,595,171
Dividends received		14,717,687,442	18,932,684,635
Decrease in other financial assets		101,838,896,250	474,875,076,497
Decrease in current financial assets measured at fair value through profit or loss		219,250,191,798	231,428,396,358
Decrease in long-term financial assets measured at fair value through profit or loss		3,910,816,934	-
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000
Decrease in long-term deposits in MSA Escrow Fund		2,000,000	-
Disposal of property, plant and equipment		4,753,442,136	310,232,652
Disposal of intangible assets		2,244,740	300,000,000
Disposal of investment properties		8,348,399,000	-
Disposal of assets held for sale		187,516,937	69,683,672,184
Disposal of investments in associates and joint ventures		-	12,278,711,553
Receipt of government grant		332,342,727	-
Collection of loans		12,399,972,071	11,999,296,773
Collection of guarantee deposits		405,481,882	168,398,188
Increase in other financial assets		(162,808,194,233)	(444,877,960,000)
Increase in current financial assets measured at fair value through profit or loss		(1,833,917,130)	(320,000,000)
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)	(93,469,533,240)
Acquisition of property, plant and equipment		(196,115,625,035)	(59,921,446,148)
Acquisition of intangible assets		(23,752,493,693)	(25,482,485,809)
Acquisition of investment properties		(6,753,668,188)	(7,305,505,179)
Acquisition of right-of-use assets		(1,618,052,949)	(1,545,580,665)
Acquisition of investments in associates and joint ventures		(5,000,000,000)	(29,488,895,600)
Increase in loans		(45,756,051,832)	(7,476,582,983)
Increase in guarantee deposits		(385,516,784)	(1,618,033,695)
Net cash outflow due to changes in scope of consolidation		(13,965,407,394)	-
<b>Net cash flows used in financing activities</b>		(576,615,808,366)	(575,912,490,723)
Dividends paid		(581,399,615,000)	(575,903,630,400)
Interest paid		(4,707,295,143)	(2,057,896,044)
Repayment of lease liabilities		(11,403,083,692)	(9,836,097,079)
Repayment of borrowings		(649,787,014,531)	(59,336,007,430)
Proceeds from borrowings		670,681,200,000	71,221,140,230
<b>Net increase (decrease) in cash and cash equivalents</b>		(516,103,406,339)	200,228,393,370
<b>Cash and cash equivalents at the beginning of the period</b>		1,401,018,438,794	946,570,845,404
Effect of exchange rate fluctuation on cash and cash equivalents		4,119,994,040	30,259,315,306
<b>Cash and cash equivalents at the end of the period</b>		₩ 889,035,026,495	₩ 1,177,058,554,080

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

## **1. Reporting Entity**

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

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2023, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of the monopoly business of red ginseng and tobacco, the Parent Company was excluded from the application of the 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 Parent 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 Parent Company’s contribution of the assets and liabilities into red ginseng business. On December 27, 2002, the Parent Company changed its name from Korea Tobacco and Ginseng Corporation to KT&G Corporation.

On October 8, 1999, the Parent Company sold 28,650,000 shares of government-owned interest to the public and listed its shares on Korea Exchange. The Parent 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 Parent Company). Then on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

## 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of June 30, 2023 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) <sup>1</sup>	Reporting date	Location	
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	June 30, 2023	Korea	
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	June 30, 2023	Korea	
	Tae-A Industrial Co., Ltd.	Manufacturing tobacco materials	100.00	June 30, 2023	Korea	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	June 30, 2023	Turkiye	
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	June 30, 2023	Brazil	
	KT&G Pars	Manufacturing and selling tobaccos	99.99	June 30, 2023	Iran	
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	June 30, 2023	Russia	
	KT&G USA Corporation	Selling tobaccos	100.00	June 30, 2023	USA	
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	June 30, 2023	Korea	
	Renzoluc Pte., Ltd.	Holding company	100.00	June 30, 2023	Singapore	
	SangSang Stay Inc.	Hotel	100.00	June 30, 2023	Korea	
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	June 30, 2023	Russia	
	Gwacheon Sangsang PFV. Inc.	Developing and selling real estate	51.00	June 30, 2023	Korea	
	KT&G Taiwan Corporation	Selling tobaccos	100.00	June 30, 2023	Taiwan	
	Mastern No.144 PFV Co., Ltd.	Developing and selling real estate	92.50	June 30, 2023	Korea	
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	June 30, 2023	Kazakhstan	
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	June 30, 2023	Kazakhstan	
	DNC Deogeun Co., Ltd. <sup>2</sup>	Developing and selling real estate	38.25	June 30, 2023	Korea	
	Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	June 30, 2023	Korea
		KGC Life&Gin Co., Ltd.	Selling ginseng, etc.	100.00	June 30, 2023	Korea
Jilin Hanzheng Ginseng Co., Ltd.		Manufacturing and selling ginseng, etc.	100.00	June 30, 2023	China	
Cheong Kwan Jang Taiwan Corporation		Selling ginseng, etc.	100.00	June 30, 2023	Taiwan	
Korean Red Ginseng Corp. Inc.		Selling ginseng, etc.	100.00	June 30, 2023	USA	
Korea Ginseng (China) Corp.		Selling ginseng, etc.	100.00	June 30, 2023	China	
Korea Ginseng Corp. Japan		Selling ginseng, etc.	100.00	June 30, 2023	Japan	
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	June 30, 2023	China	
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur <sup>3</sup>	Manufacturing and selling tobaccos	99.99	June 30, 2023	Indonesia	
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	June 30, 2023	Indonesia	

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

<sup>2</sup>The Parent Company acquired preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2023, and as of June 30, 2023, the percentage of voting shares held by the Parent Company is 51.00%.

<sup>3</sup>A portion of ownership in PT Trisakti Purwosari Makmur is held by the Parent Company.



### 1.2 Consolidated Subsidiaries (Continued)

During the six-month period ended June 30, 2023, the Parent 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. through paid-in capital increase.

During the six-month period ended June 30, 2023, the Parent Company acquired KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP for ₩18,510 million and ₩16,188 million, respectively, through capital investment.

During the six-month period ended June 30, 2023, the Parent Company acquired 3,825 shares (₩35,552 million) of preferred stocks with voting rights of DNC Deogeun Co., Ltd. through equity purchase.

During the six-month period ended June 30, 2023, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, as of the merger date of January 1, 2023 for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia, merged PT KT&G Indonesia, a subsidiary of the Parent Company.

## 2. Material Accounting Policies

### (1) Basis of Preparation

The interim consolidated financial statements of the Group 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 consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor’s review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group 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 consolidated financial statements.

**2. Material Accounting Policies (Continued)***(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 Group'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 Group 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 Group 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.

*(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 consolidated financial statements are consistent with those of the consolidated 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 Group 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 consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2022, except for the estimates used to determine the income tax expense.

#### 4. Operating Segments

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

Operating Segments	Principal operations
Tobacco	Manufacturing and selling tobaccos
Ginseng	Manufacturing and selling red ginseng, etc.
Real estate <sup>1</sup>	Selling and renting real estate
Others <sup>1</sup>	Manufacturing and selling pharmaceuticals, cosmetics and others

<sup>1</sup>For the six-month period ended June 30, 2023, the Group reclassified SangSang Stay Inc. from Others to Real estate segment and revised the comparable information.

(b) Details of segment information on sales and operating profit for the six-month periods ended June 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	June 30, 2023						
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	\ 1,871,090	\ 720,633	\ 225,522	\ 147,190	\ 2,964,435	\ (232,770)	\ 2,731,665
Intersegment sales	(125,410)	(75,727)	(27,980)	(3,653)	(232,770)	232,770	-
External sales	1,745,680	644,906	197,542	143,537	2,731,665	-	2,731,665
Operating profit <sup>2</sup>	457,250	34,100	45,448	749	537,547	21,409	558,956
Depreciation and amortization	78,529	24,559	14,939	5,406	123,433	(4,837)	118,596

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

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

(in millions of Korean won)

	June 30, 2022						
	Tobacco <sup>1</sup>	Ginseng	Real estate <sup>3</sup>	Others <sup>3</sup>	Segment total	Adjustments	Consolidated
Total segment sales	\ 1,918,504	\ 731,702	\ 294,191	\ 141,085	\ 3,085,482	\ (265,415)	\ 2,820,067
Intersegment sales	(149,106)	(68,089)	(38,788)	(9,432)	(265,415)	265,415	-
External sales	1,769,398	663,613	255,403	131,653	2,820,067	-	2,820,067
Operating profit (loss) <sup>2</sup>	555,879	38,639	96,697	(3,836)	687,379	(34,189)	653,190
Depreciation and amortization	80,513	27,895	2,045	4,695	115,148	(4,389)	110,759

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

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

<sup>3</sup>For the six-month period ended June 30, 2023, the Group reclassified SangSang Stay Inc. from Others to Real estate segment and revised the comparable information.



#### 4. Operating Segments (Continued)

(c) The Group recognizes revenue by transferring goods and services over a period of time or at a point in time in major business lines. The categories of major business lines are consistent with the revenue disclosure information for each 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:					
Tobacco	Wholesale and retail	877,155	1,730,399	893,677	1,686,012
	Direct sales	10,909	15,281	47,907	83,386
Ginseng	Wholesale and retail	163,968	365,816	132,371	329,101
	Direct sales	96,841	279,090	134,409	334,512
Others	Wholesale and retail	73,008	142,483	64,777	130,366
	Direct sales	432	1,054	166	1,287
	Subtotal	1,222,313	2,534,123	1,273,307	2,564,664
Revenue recognized over time:					
Real estate <sup>1</sup>	Sales and rental	113,682	197,542	144,192	255,403
	Total	1,335,995	2,731,665	1,417,499	2,820,067

<sup>1</sup>For the six-month period ended June 30, 2023, the Group reclassified SangSang Stay Inc. from Others to Real estate segment and revised the comparable information.

(d) Segment information of assets and liabilities as of June 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

		June 30, 2023						
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:								
Segment assets	\	6,626,824	2,167,480	1,639,913	237,098	10,671,315	(2,526,500)	8,144,815
Investments in associates and joint ventures		-	-	260,661	14,244	274,905	-	274,905
	Subtotal	6,626,824	2,167,480	1,900,574	251,342	10,946,220	(2,526,500)	8,419,720
Common assets								
	Total assets							12,131,321
Acquisition of non-current assets	\	152,323	51,753	2,022	5,620	211,718	(24,863)	186,855
Liabilities:								
Segment liabilities	\	2,385,457	231,685	100,524	99,709	2,817,375	(611,178)	2,206,197
Common liabilities								634,299
	Total liabilities							2,840,496

  

(in millions of Korean won)

		December 31, 2022						
		Tobacco	Ginseng	Real estate <sup>1</sup>	Others <sup>1</sup>	Segment total	Adjustments	Consolidated
Assets:								
Segment assets	\	6,213,616	2,233,505	1,465,572	229,346	10,142,039	(2,373,907)	7,768,132
Investments in associates and joint ventures		-	-	265,084	9,450	274,534	-	274,534
	Subtotal	6,213,616	2,233,505	1,730,656	238,796	10,416,573	(2,373,907)	8,042,666
Common assets								
	Total assets							12,301,716
Acquisition of non-current assets	\	299,725	32,984	9,670	8,718	351,097	44,156	395,253
Liabilities:								
Segment liabilities	\	2,505,124	247,442	63,318	94,963	2,910,847	(583,870)	2,326,977
Common liabilities								616,159
	Total liabilities							2,943,136

<sup>1</sup>For the six-month period ended June 30, 2023, the Group reclassified SangSang Stay Inc. from Others to Real estate segment and revised the comparable information.

#### 4. Operating Segments (Continued)

Common assets and borrowings include cash and cash equivalents, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or loss, deferred tax assets, and others; common liabilities include borrowings, deferred tax liabilities, and others.

(e) Regional information by customer location 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		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	\ 1,896,675	\ 834,990	\ 2,731,665	\ 1,917,223	\ 902,844	\ 2,820,067
Non-current assets	2,986,209	130,809	3,117,018	2,943,825	123,475	3,067,300

The regional information for above 'Overseas' category is not separately disclosed based on the immateriality of sales and non-current assets of each country.

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

## 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	1,568,805	-	1,366,523	-
Loans	22,257	81,214	19,180	52,887
Other receivables	54,895	1,199	94,904	1,087
Guarantee deposits	57,044	57,508	37,549	54,466
Accrued income	12,265	105	10,355	36
Total	1,715,266	140,026	1,528,511	108,476

(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	1,775,686	140,107	1,608,031	108,556
Allowances:				
Trade receivables	(59,603)	-	(78,666)	-
Other receivables	(817)	(81)	(854)	(80)
Total allowances	(60,420)	(81)	(79,520)	(80)
Net trade and other receivables	1,715,266	140,026	1,528,511	108,476

(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	79,600	79,007
Reversal of impairment loss <sup>1</sup>	(18,928)	(146)
Write off	(169)	(166)
Net exchange difference	(2)	1,941
Ending balance	60,501	80,636

<sup>1</sup>₩111 million of impairment loss classified as discontinued operation are included for the six-month period ended June 30, 2022.

Impairment loss on trade receivables and reversal thereof is included as part of selling, general and administrative expenses in the consolidated statements of comprehensive income, while impairment loss on other receivables and reversal thereof is included as part of other expense 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	77,020	(5,255)	71,765	42,708	(3,037)	39,671
Finished goods	442,141	(38,096)	404,045	460,150	(35,719)	424,431
Half-finished goods and work in progress	909,186	(3,711)	905,475	1,023,783	(3,596)	1,020,187
Raw materials	875,364	(3,811)	871,553	858,261	(8,763)	849,498
Supplies	62,863	-	62,863	54,325	-	54,325
By-products	6,744	-	6,744	5,160	-	5,160
Buildings under construction <sup>1</sup>	87,229	-	87,229	61,597	-	61,597
Completed buildings	16,057	-	16,057	1,490	-	1,490
Sites for construction of real estate <sup>1</sup>	111,587	-	111,587	66,622	-	66,622
Goods in transit	25,269	-	25,269	52,988	(127)	52,861
Total	2,613,460	(50,873)	2,562,587	2,627,084	(51,242)	2,575,842

<sup>1</sup>Includes ₩57,441 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 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:				
Reversal of loss on valuation of inventories	(111)	(1,500)	(37)	(3,204)
Loss on obsolescence of inventories	2,916	6,092	632	3,512
Other expense:				
Loss on obsolescence of inventories	244	267	1	12
Total	3,049	4,859	596	320



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

Changes in investments in associates and joint ventures 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	274,534	242,992
Acquisition	5,000	29,489
Disposal	-	(12,279)
Shares of net profit or loss	(2,614)	14,792
Dividends	(1,987)	(2,862)
Reclassification <sup>1</sup>	105	17,014
Changes in Equity	(133)	(209)
Ending balance	<u>274,905</u>	<u>288,937</u>

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

## 8. 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>	June 30, 2023	June 30, 2022
Beginning balance	1,837,041	1,741,042
Acquisition	142,623	66,993
Disposal/Impairment	(9,756)	(1,175)
Depreciation	(79,750)	(79,990)
Reclassification and others <sup>1</sup>	(8,909)	(14,503)
Ending balance	1,881,249	1,712,367

<sup>1</sup>Includes ₩10,689 million of transfers to investment properties and ₩71 million of transfers to intangible assets for the six-month period ended June 30, 2023, and ₩32,328 million of transfers to investment properties, ₩714 million of transfers to inventories and ₩1,522 million of transfers to intangible assets for the six-month period ended June 30, 2022.

## 9. 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>	June 30, 2023	June 30, 2022
Beginning balance	167,851	145,719
Acquisition	20,986	22,082
Disposal/Impairment	(166)	(768)
Amortization	(14,023)	(8,687)
Reclassification and others <sup>1</sup>	1,302	2,361
Ending balance	175,950	160,707

<sup>1</sup>Includes ₩71 million of transfers from property, plant and equipment for the six-month period ended June 30, 2023, and ₩1,522 million of transfers from property, plant and equipment for the six-month period ended June 30, 2022.

## 10. 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>	June 30, 2023	June 30, 2022
Beginning balance	1,071,463	1,150,980
Acquisition	4,748	7,370
Disposal/Impairment	(1,776)	-
Depreciation	(11,787)	(10,306)
Reclassification and others <sup>1</sup>	(48,140)	9,719
Ending balance	1,014,508	1,157,763

<sup>1</sup>Includes ₩10,689 million of transfers from property, plant and equipment and ₩57,441 million of transfers to inventories for the six-month period ended June 30, 2023, and ₩32,328 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.

## 11. 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>	June 30, 2023	June 30, 2022
Beginning balance	40,244	36,445
Acquisition	18,498	13,082
Disposal/Changes	(517)	(1,733)
Depreciation	(13,035)	(11,777)
Reclassification and others	120	446
Ending balance	45,310	36,463

## 12. 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	\ - \	20,124
Disposal	-	(43,756)
Reclassification and others <sup>1</sup>	-	23,632
Ending balance	\ - \	-

<sup>1</sup>Includes ₩22,647 million of transfers from investment properties, and ₩985 million transfers from investment in associates for the six-month period ended June 30, 2022.

## 13. Borrowings

(a) 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>Annual interest rate (%)</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Borrowings	Hana Bank	FTP(1 year)+0.994~1.2	\ 4,000 \	7,000
		Bank Debenture (6 months)+1.62	-	3,000
		Benchmark Interest Rate+1.75	7,905	7,805
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	5,887	5,686
	KB Kookmin Bank	Benchmark Interest Rate+1.75	39,523	39,025
	Shinhan Bank	Bank Debenture (6 months)+1.13	-	10,000
		Bank Debenture (1 year)+1.05	10,000	-
	NH Nonghyup Bank	3.87	-	19
		5.07	4,581	-
		Subtotal		<u>71,896</u>
Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank	-	-	75
	Hana Card	-	-	19
	Subtotal		<u>-</u>	<u>94</u>
	Total		\ <u>71,896</u> \	<u>72,629</u>

<sup>1</sup>The Group 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.



### 13. Borrowings (Continued)

(b) Details of current portion of long-term borrowings and long-term borrowings as of June 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2024.06.10~ 2027.06.20	-	52,195	51,308
Borrowings	KB Kookmin Bank	2025.03.07	MOR(1 year)+1.67	10,000	-
		2023.09.11	MOR(6 months)+1.03	-	825
			MOR(6 months)+1.58	-	801
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66	10,000	10,000
		2024.12.01	Industrial Financial Debenture (6 months)+1.44	20,000	20,000
			5.37	2,000	-
	Hana Bank	2026.12.31	5.58	2,000	-
			5.63	4,000	-
			5.64	6,000	-
	<b>Total</b>			<b>106,195</b>	<b>82,934</b>
Consolidated statements of financial position:					
	Current			18,844	4,126
	Non-current			87,351	78,808
	<b>Total</b>			<b>106,195</b>	<b>82,934</b>

<sup>1</sup>This borrowing is a government fund granted for contracted cultivation as part of ginseng systematization project, subsidized by the Ministry for Agriculture, Food and Rural Affairs. Therefore, the interest rate is 0% and the discount for present value is calculated and recognized as a government subsidy every quarter.

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

## 14. 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:

*(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
Defined benefit plan:				
Current service cost	10,937	21,913	12,714	25,647
Net interest on net defined benefit liabilities (assets)	(1,069)	(2,136)	519	795
Past service cost and loss on settlement	(836)	(808)	(1,474)	(1,474)
Subtotal	9,032	18,969	11,759	24,968
Defined contribution plan:				
Contributions recognized as expense	(39)	3,476	1,294	3,406
Other long-term employee benefits:				
Current service cost, etc.	2,534	3,870	1,475	2,898
Termination benefits:				
Voluntary retirements, etc.	8	493	-	2,214
Total	11,535	26,808	14,528	33,486

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

*(in millions of Korean won)*

	June 30, 2023	December 31, 2022
Present value of defined benefit obligations	545,556	520,980
Fair value of plan assets	(580,264)	(598,190)
Total	(34,708)	(77,210)

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
June 30, 2023 and 2022 (Unaudited)



## 15. 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	14,623	3,805	14,141	4,168
Provision for site restoration	1,557	622	1,764	537
Provision for financial guarantee	77	-	-	134
Provision for greenhouse gases	71	-	194	-
Provision for others	15,357	2	1,292	14,115
Total	34,632	4,429	21,563	18,954

(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	97	(1,322)	2,947
Refund liabilities	18,309	2,650	(2,531)	18,428
Provision for site restoration	2,301	31	(153)	2,179
Provision for financial guarantee	134	-	(57)	77
Provision for greenhouse gases	194	-	(123)	71
Provision for others	15,407	573	(621)	15,359
Total	40,517	3,351	(4,807)	39,061

(in millions of Korean won)

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

## 16. 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	Progress (%)	June 30, 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	92.29	₩ 803,056	₩ 750,352	₩ 692,472	₩ 65,781	₩ 313,022	
ePyeonghansang Daejeon station	December, 2022	June, 2026	7.82	226,951	132,491	10,360	9,835	8,319	
Centum Vista 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	
Gwacheon Sangsang Xi Tower B	January, 2021	May, 2023	100.00	267,316	239,568	232,962	26,633	138,390	
Goyang Hyangdong district knowledge industry center <sup>2</sup>	March, 2021	July, 2023	82.72	541,142	540,080	428,943	40,348	295,527	
Total				₩ 2,084,792	₩ 1,741,543	₩ 1,370,242	₩ 148,102	₩ 758,941	

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

<sup>2</sup>Sales revenue for the six-month period ended June 30, 2023 excludes sales revenue of DNC Deogeun Co., Ltd. which was incurred before the Group acquiring control over the entity.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	June 30, 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	53.48	₩ 791,406	₩ 750,989	₩ 401,641	₩ 156,766	₩ 180,658	
Gwacheon Sangsang Xi Tower B	January, 2021	May, 2023	54.19	239,568	239,568	128,068	52,815	71,878	
Total				₩ 1,030,974	₩ 990,557	₩ 529,709	₩ 209,581	₩ 252,536	

<sup>1</sup>Excludes ₩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.

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

**16. 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 ePyeonghansang	₩ 692,472	₩ 455,633	₩ 242,154	₩ 5,315
Daejeon station Centum Vista	10,360	13,773	-	3,413
Nokbeon-dong mixed-use building	3,207	-	3,207	-
Elif Mia station Complex 1	305	870	-	565
Elif Mia station Complex 2	1,993	5,586	-	3,593
Gwacheon Sangsang Xi Tower B	232,962	127,240	105,722	-
Goyang Hyangdong district knowledge industry center	428,943	302,730	126,213	-
<b>Total</b>	<b>₩ 1,370,242</b>	<b>₩ 905,832</b>	<b>₩ 477,296</b>	<b>₩ 12,886</b>

(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 ePyeonghansang	₩ 626,691	₩ 375,778	₩ 252,461	₩ 1,548
Daejeon station Centum Vista	525	1,770	-	1,245
Goyang Hyangdong district knowledge industry center	206,329	115,868	90,461	-
<b>Total</b>	<b>₩ 833,545</b>	<b>₩ 493,416</b>	<b>₩ 342,922</b>	<b>₩ 2,793</b>

(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.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

June 30, 2023 and 2022 (Unaudited)



### 17. 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 <sup>1</sup>	Three-month period ended	Six-month period ended <sup>1</sup>
Salaries	121,636	248,081	115,024	233,924
Retirement and termination benefits	5,645	14,693	9,163	20,865
Employee welfare	20,418	37,391	18,635	36,828
Travel expenses	6,289	11,281	4,720	7,454
Communication cost	1,657	3,216	1,627	3,101
Utilities	2,739	7,174	2,751	6,086
Taxes and dues	25,050	28,908	23,268	26,133
Supplies	1,655	3,940	1,377	2,685
Rent	3,844	8,671	3,945	8,747
Depreciation	14,868	29,518	14,841	30,360
Amortization	7,041	13,859	4,816	8,575
Repairs and maintenance	1,966	3,015	1,669	2,588
Vehicles	1,739	3,444	1,999	3,699
Insurance	1,073	2,061	241	1,207
Commissions	96,635	212,556	98,092	210,487
Freight and custody	16,676	33,041	15,888	33,134
Conferences	1,264	2,595	1,223	1,887
Advertising	76,815	129,209	69,260	140,563
Education and training	2,232	4,154	1,063	2,177
Prizes and rewards	406	823	480	772
Cooperation	305	511	477	872
Research and development	12,427	20,956	10,985	19,547
Impairment loss (reversal of impairment loss) on trade receivables	(16,283)	(18,865)	74	274
Total	406,097	800,232	401,618	801,965

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩3,698 million and ₩7,446 million for the six-month periods ended June 30, 2023 and 2022, respectively.

## 18. 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 <sup>1</sup>	Three-month period ended	Six-month period ended <sup>1</sup>
Gain on foreign currency transaction	₩ 16,276	₩ 25,681	₩ 18,104	₩ 25,181
Gain on foreign currency translation	23,537	98,903	157,168	198,125
Gain on valuation of derivatives	759	4,564	-	-
Reversal of impairment loss on other receivables	41	62	358	420
Gain on disposal of property, plant and equipment	393	1,627	35	48
Gain on disposal of investment properties	4,110	6,732	-	-
Gain on disposal of assets held for sale	-	-	11,358	34,088
Gain on lease contract adjustments	202	267	71	132
Miscellaneous income	4,356	8,154	7,119	10,500
Total	₩ 49,674	₩ 145,990	₩ 194,213	₩ 268,494

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩265 million and ₩3,199 million for the six-month periods ended June 30, 2023 and 2022, respectively.

(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 <sup>1</sup>	Three-month period ended	Six-month period ended <sup>1</sup>
Loss on foreign currency transaction	₩ 3,520	₩ 13,360	₩ 8,331	₩ 11,905
Loss on foreign currency translation	31,364	41,439	8,712	21,103
Loss on valuation of derivatives	4,018	13,416	23,876	28,961
Loss on disposal of property, plant and equipment	2,539	2,715	375	455
Loss on impairment of property, plant and equipment	5,917	5,931	511	511
Loss on disposal of intangible assets	-	41	9	378
Loss on impairment of intangible assets	60	123	58	91
Loss on disposal of Investment properties	-	59	-	-
Loss on disposal of assets held for sale	-	-	-	1,217
Donations	786	1,704	1,153	2,532
Loss on lease contract adjustments	11	14	5	8
Miscellaneous loss	5,651	9,327	2,786	5,422
Total	₩ 53,866	₩ 88,129	₩ 45,816	₩ 72,583

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩515 million and ₩1,566 million for the six-month periods ended June 30, 2023 and 2022, respectively.

## 19. 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 <sup>1</sup>	₩ 18,180	₩ 34,183	₩ 6,463	₩ 10,982
Dividend income	6,846	12,141	5,828	14,445
Gain on valuation of financial assets measured at fair value through profit or loss	15,112	34,929	8,776	28,369
Total finance income	₩ 40,138	₩ 81,253	₩ 21,067	₩ 53,796
Finance costs:				
Interest expense	₩ 5,138	₩ 26,888	₩ 7,035	₩ 15,911
Loss on valuation of financial assets measured at fair value through profit or loss	-	1,945	9,310	21,057
Other financial expense	-	-	-	10,300
Total finance costs	₩ 5,138	₩ 28,833	₩ 16,345	₩ 47,268
Net finance income	₩ 35,000	₩ 52,420	₩ 4,722	₩ 6,528

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

## 20. 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 28.33% and 30.81%, respectively.



## 21. Related Parties

(a) Details of the Group'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	
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.53	12.53	
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95	
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47	
	KOCREF 36 REIT	Korea	21.01	21.01	
	KOCREF 41 REIT <sup>2</sup>	Korea	26.47	26.47	
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43	
	Cheongna Medipolis PFV Co., Ltd. <sup>3</sup>	Korea	56.74	56.74	
	INNODIS Co., Ltd. <sup>1</sup>	Korea	19.64	19.64	
	SJ BIO MED Co., Ltd. <sup>1,4</sup>	Korea	14.39	14.39	
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	22.73	
	Mirae Asset KT&G Investment Fund I <sup>5</sup>	Korea	50.00	50.00	
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	-	
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>6</sup>	Germany	51.35	51.35
		Starfield Suwon Inc.	Korea	50.00	50.00

<sup>1</sup>The Group has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Group 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>The Group has reclassified the ownership as investment in associates, as the Group 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>3</sup>The Group 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>4</sup>As of June 30, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>5</sup>The Group acquired 50.00% of Mirae Asset KT&G Investment Fund I during the year ended December 31, 2022, and the Group classified the shares as investments in associates.

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

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
June 30, 2023 and 2022 (Unaudited)



## 21. Related Parties (Continued)

(b) The Group 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:

(in millions of Korean won)

Type	Name of entity	June 30, 2023				June 30, 2022			
		Sales and other revenue		Purchase and other expenses		Sales and other revenue		Purchase and other expenses	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Associates	KOCREF 36 REIT	600	600	-	-	600	600	-	-
	KOCREF 41 REIT	914	914	-	-	822	822	-	-
	AndaStation Professional Investment Private REIT No.1	473	473	-	-	-	-	-	-
	Kiwoom Milestone Private REIT No.16	-	-	-	-	-	793	-	-
	INNODIS Co., Ltd.	-	-	74	123	-	-	96	530
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	-	-	-	-	648	648	-
Starfield Suwon Inc.		-	-	-	-	-	-	-	68
Total		1,987	1,987	74	123	2,070	2,863	96	598

(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
Associates	AndaStation Professional Investment Private REIT No.1	-	-	481	-
	INNODIS Co., Ltd.	-	-	-	35
Joint ventures	Starfield Suwon Inc.	-	-	70	-
	Total	-	-	551	35

(d) 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	Equity recovery	Equity investment	Equity recovery
Associates	KOCREF 41 REIT	-	-	29,489	12,279
	Mirae Asset KT&G Investment Fund I	4,500	-	-	-
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>	-	-	-	24,353
	KORAMCO Amsa PFV Co., Ltd. <sup>2</sup>	-	-	-	1,749
	Total	4,500	-	29,489	38,381

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

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

**21. Related Parties (Continued)**

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

(f) The Group 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 Group 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.

(g) The Group has entered into a capital contribution agreement for 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.

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

(i) As of June 30, 2023, the Group 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.

(j) The Parent Company has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Parent Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Parent Company dispose the shares by obtaining the approvals from the Board of Directors and shareholders, the Parent 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 Parent Company.

(k) As of June 30, 2023, the Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Note 23 (c)).

(l) Key management personnel compensation 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
Short-term and long-term employee benefits ₩	10,376	₩ 9,950
Retirement benefits	966	1,209
Total ₩	₩ 11,342	₩ 11,159

**22. Risk Management and Fair Value of Financial Instruments**

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

**① Currency risk**

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

**② Price risk**

The Group 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 Group invests in. The Group'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 Group invests in. Material investments in the Group's portfolio are individually managed, for which acquisitions and disposals are required to be approved by the Group's management.

**③ Interest rate risk**

The Group is exposed to the risk of interest rate fluctuation related to its borrowings, trade payables and other payables, and lease liabilities. The Group'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.

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

The Group 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 Group'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 Group 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 Group then receives collaterals and/or payment guarantees as necessary. In addition, the Group 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 Group 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 Group'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 Group's management deems the financial liabilities are redeemable by the cash flows from operating activities and cash inflows from financial assets.

## 22. 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 <sup>1</sup>	565,645	1,051,441
Financial assets measured at fair value through other comprehensive income or loss	215,860	206,494
Derivative assets	1,585	23,069
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	856,085	1,063,112
Other financial assets	303,463	243,901
Trade and other receivables	1,855,291	1,636,987
Long-term deposits	1,492,799	1,437,130
Subtotal	<u>4,507,638</u>	<u>4,381,130</u>
Total financial assets	<u>5,290,728</u>	<u>5,662,134</u>
Financial liabilities:		
Derivative liabilities	1,273	-
Financial liabilities measured at amortized cost		
Short-term borrowings	71,896	72,629
Current portion of long-term borrowings	18,844	4,126
Long-term borrowings	87,351	78,808
Trade and other payables	935,020	1,101,926
Lease liabilities	40,697	37,609
Liabilities for non-controlling interests	12,545	27,769
Subtotal	<u>1,166,353</u>	<u>1,322,867</u>
Total financial liabilities	<u>1,167,626</u>	<u>1,322,867</u>

<sup>1</sup>As 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.

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

(e) When measuring the fair value of an asset or a liability, the Group 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

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 <sup>1</sup>	₩ 565,645	₩ -	₩ 214,809	₩ 350,836
Fair value through other comprehensive income or loss	215,860	206,355	-	9,505
Derivative assets	1,585	-	1,585	-
Total financial assets	₩ 783,090	₩ 206,355	₩ 216,394	₩ 360,341
Derivative liabilities	₩ 1,273	₩ -	₩ 1,273	-

<sup>1</sup>As 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 <sup>1</sup>	₩ 1,051,441	₩ -	₩ 693,490	₩ 357,951
Fair value through other comprehensive income or loss	206,494	196,989	-	9,505
Derivative assets	23,069	-	23,069	-
Total financial assets	₩ 1,281,004	₩ 196,989	₩ 716,559	₩ 367,456

<sup>1</sup>As 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.

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
June 30, 2023 and 2022 (Unaudited)



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

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	366,956	319,482
Acquisition	9,837	29,362
Disposal	(28,075)	(269)
Transfers	-	(28,300)
Changes in fair value	11,623	1,729
Ending balance	360,341	322,004

(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					
	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	₩ -	₩ -	₩ -	₩ 34,183	₩ -	₩ 34,183
Dividend income	6,066	6,074	-	-	-	12,140
Gain or loss on valuation	32,984	-	(8,852)	-	-	24,132
Interest expense	-	-	-	-	(26,888)	(26,888)
Reversal of impairment loss	-	-	-	18,928	-	18,928
Gain or loss on lease contract adjustments	-	-	-	-	253	253
Total	₩ 39,050	₩ 6,074	₩ (8,852)	₩ 53,111	₩ (26,635)	₩ 62,748
Other comprehensive income before tax:						
Net change in fair value	₩ -	₩ 9,367	₩ -	₩ -	₩ -	₩ 9,367

(in millions of Korean won)

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



**23. Contingent Liabilities and Commitments**

## (a) Litigation cases

As of June 30, 2023, the Group has 19 pending litigations where the Group is in the position of the defendant, and the litigation amounts amount to ₩74,597 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of June 30, 2023.

## (b) Commitments with financial institutions

The Group'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 and one other	USD	110,300	100,737
Derivatives trading <sup>1</sup>	KB Kookmin Bank and five others	USD	323,500	62,716
Trade receivables factoring agreement	Hana Bank	KRW	5,000	161
Others	Korea Development Bank and five others	KRW	933,699	178,181
	Hana Bank Bahrain branch	USD	4,500	4,500

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

As of June 30, 2023, the Group 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 Group as of June 30, 2023 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	647,486	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	54,370	License guarantee, etc.
Hana Bank	KRW	100	Refund debt payment guarantee
ARCH and one other	USD	395	License bond payment guarantee
Nevis	USD	500	Trade receivable payment guarantee
Garanti Bank and one other	TRY	23,000	Payment guarantee on customs, 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 Group has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

### 23. Contingent Liabilities and Commitments (Continued)

Details of payment guarantees provided by the Group 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
Korea Special Sales Financial Cooperative Association Registered Agency	Korea Special Sales Financial Cooperative Association	882	-	Payment guarantee for deductibles and others of Sangmu branch
Buyer of Goyang Hyangdong district knowledge industry center	KB Kookmin Bank and two others	360,000	284,070	Loan guarantee for the intermediate payment of off-plan sales construction

The Group 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 13).

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
Property, plant and equipment	24,610	10,000	15,600	KB Kookmin Bank	Long term borrowings
	48,428	30,000	44,400	Korea Development Bank	Current portion of long-term and long term borrowings
	16,847	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	29,914	-	2,400	Korea Development Bank	Collateral for limit loan agreement
	2,763	14,000	30,000	Hana Bank	Facility loan
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
	81,038	48,000	57,600	KB Kookmin bank and one other	Short-term borrowings
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
Pledge of Profit Rights	200	-	110	Hana Bank	Innergin Mall payment guarantee
	-	62,800	49,000	New tiger No.9 (1st), Happy Asset No.5 (2nd)	Pledge of Profit Rights
Investments in Associates	2,797	90,000	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	647,357	291,103	266,981		

<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.

### 23. Contingent Liabilities and Commitments (Continued)

Details of restricted financial 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>
Other financial assets and other receivables	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
	Security deposits for checking accounts, etc.	424	417
	Innergin Mall payment guarantee	110	-
Cash and cash equivalents	Establishment of a pledge to savings	1,682	1,680
Total		\ <u>114,676</u> \	<u>114,557</u>

#### (d) Others

Each year, the Group 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 Group inflicts damage on tobacco consumers due to any illegal activities committed by the Group 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 Group, in whole, after 25 years from each date of deposit. The Group 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 Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of June 30, 2023, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩151,743 million and ₩43,734 million, respectively (as of December 31, 2022: ₩112,930 million and ₩27,725 million, respectively).

As of June 30, 2023, the Group has a management trust agreement in place with Marriott International Management Company B.V., and has been provided with the international public relations services by Global Hospitality Licensing S.A.R.L. Furthermore, the Group has been provided with the technical advice by Marriott International Design & Construction Services, Inc.

The Group 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 Group 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 Group has entered into a capital call agreement in relations to the Group's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

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

The Group 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 ₩63,831 million, and the detailed timeline for contribution is yet to be determined.

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

As of June 30, 2023, in relation to Goyang Hyangdong district knowledge industry center sales project, the Group has entered into an asset management consignment contract with SDAMC Co., Ltd., which containing commitment to management, operation, and disposal of entrusted asset that is under construction by the Group and SDAMC Co., Ltd. Under the contract, the Group has paid ₩197 million of monthly commission for the period from the approval of the announcement of the sale to the completion date. The Group has also entered into a fund management consignment contract with Kyobo Asset Trust Co., Ltd.

The Group has entered into a land-sales contract in 2018 and completed the balance payment of remaining balance in 2020. The land should be used for constructing a building in accordance with the business plan submitted to the authority of Gwacheon City and a certain part of the building should be used for designated purposes stated in the business plan for 10 years from the date of registration of preservation of ownership. In addition, the Group is obliged to donate a portion of the building to Gwacheon City.

The Group has obligated to return roads to Goyang City for free in relation to the sales project of Goyang Hyangdong District Knowledge Industry Center. In addition, the Group has obligated to pay compensation for delay to the buyer due to delayed move-in in relation to the sales project.

The Parent Company has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Parent Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Parent Company dispose the shares by obtaining the approvals from the Board of Directors and Shareholders, the Parent 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 Parent Company.

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

As of June 30, 2023, the Group 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 Group.

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

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

As of June 30, 2023, in relation to the Daejeon Station Centum Vista sales project, the Group 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 Group 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 Group 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 Parent 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 Parent 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.

The Group is 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 Group's business in Russia and its financial position therein cannot be reasonably estimated as of June 30, 2023.

### 23. Contingent Liabilities and Commitments (Continued)

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 Group in its consolidated financial statements as of June 30, 2023.

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
June 30, 2023 and 2022 (Unaudited)



## 24. 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	476,154	602,221
Operating profit from continuing operations	480,102	608,034
Operating profit from discontinued operation	(3,948)	(5,813)
Adjustments:		
Employee welfare	3,459	2,971
Retirement benefits	18,969	24,968
Loss on valuation or obsolescence of inventories	4,859	320
Depreciation	104,573	102,073
Amortization	14,023	8,687
Reversal of impairment loss on trade and other receivables	(18,928)	(146)
Loss on foreign currency translation	41,439	21,103
Loss on valuation of derivatives	13,416	28,961
Loss on disposal of property, plant and equipment	2,715	455
Loss on impairment of property, plant and equipment	5,931	511
Loss on disposal of intangible assets	41	378
Loss on impairment of intangible assets	123	91
Loss on disposal of investment properties	59	-
Loss on disposal of assets held for sale	-	1,217
Other expenses, etc.	1,958	2,581
Finance cost	28,833	47,268
Share based payment expense	79	-
Income tax expense	188,203	268,201
Gain on foreign currency translation	(98,903)	(198,125)
Gain on valuation of derivatives	(4,564)	-
Gain on disposal of property, plant and equipment	(1,627)	(48)
Gain on disposal of investment property	(6,732)	-
Gain on disposal of assets held-for-sale	-	(34,088)
Other income, etc.	(4,365)	(2,662)
Finance income	(81,253)	(53,796)
Decrease (increase) of investments in associates and joint ventures due to share of net gain/loss	2,614	(14,792)
Changes in working capital:		
Increase in trade and other receivables	(222,058)	(258,726)
Decrease (increase) in derivatives	13,906	(14,738)
Decrease in inventories	92,053	188,233
Decrease (increase) in accrued tobacco excise and other taxes	(114,141)	112,326
Increase in advance payments	(161,615)	(85,633)
Decrease in prepaid expenses	12,239	12,468
Increase (decrease) in trade and other payables	(53,205)	107,334
Increase in advance receipts	7,846	5,065
Increase (decrease) in tobacco excise and other taxes payable	91,578	(11,276)
Decrease in provision for site restoration	(1)	(9)
Increase (decrease) in net defined benefit liabilities	1,306	(822)
Cash generated from operations	358,984	862,571

**25. Discontinued Operation**

As of December 14, 2021, The Group has discontinued KT&G USA Corporation business as the Group determined it necessary to revisit the entire global business strategy, following the enhanced US tobacco regulations and growing market competition which warrant reconsideration of conducting the US business segment.

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

*(in millions of Korean won)*

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Revenue <sup>1</sup>	265	3,199
Expenses <sup>2</sup>	(4,213)	(9,012)
Loss from discontinued operation, before tax	(3,948)	(5,813)
Income tax expense	-	-
Loss from discontinued operation, after tax	(3,948)	(5,813)
Exchange differences on translating foreign operations	(1,298)	(2,504)
Total comprehensive income (loss) from discontinued operation	(5,246)	(8,317)

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

<sup>2</sup>The expenses include selling, general and administrative expenses and other expenses.

Profit or loss from discontinued operation for the six-month periods ended June 30, 2023 and 2022 are entirely attributed to the owners of the Parent Company.

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

*(in millions of Korean won)*

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Cash flows from operating activities	(1,453)	(13,941)
Cash flows from investing activities	-	248
Cash flows from financing activities	(469)	(556)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	630	2,233
Total cash flow	(1,292)	(12,016)





### 26. Subsequent Events

At the Board of Directors held on August 3, 2023, the Parent 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 Parent 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 Parent Company plans to acquire and retire 3,470,000 shares of its treasury stocks in 2023 through trading on the floor.

According to the resolution of the Board of Directors made on August 3, 2023, the Parent 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.