



# **KT&G Corporation**

Interim Separate Financial Statements

For the nine-month periods ended September 30, 2023 and 2022

With the independent auditor's review report

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

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

We have reviewed the accompanying interim separate financial statements of KT&G Corporation (the “Company”), which comprise the interim separate statement of financial position as of September 30, 2023, and the related interim separate statements of comprehensive income for the three and nine-month periods ended September 30, 2023 and 2022, interim separate statements of changes in equity and interim separate statements of cash flows for the nine-month periods then ended and a summary of material accounting policy information and other explanatory information.

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

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

**Auditor’s responsibility**

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

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

**Conclusion**

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

**Other matter**

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

November 13, 2023



This review report is effective as of November 13, 2023, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim separate financial statements and may result in modifications to this review report.

# **KT&G Corporation**

## **Interim Separate Financial Statements** For the nine-month periods ended September 30, 2023 and 2022

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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



(in Korean won)

	Notes	September 30, 2023	December 31, 2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	23	₩ 371,676,665,240	₩ 939,549,506,970
Current other financial assets	23,24	107,511,599,871	138,540,300,000
Current financial assets measured at fair value through profit or loss	23	201,827,465,657	393,106,179,920
Trade and other receivables	5,17,22,23,24	1,598,797,241,506	1,299,941,217,472
Derivative assets	23,24	1,017,966,761	23,069,310,564
Inventories	6	1,172,031,954,372	1,123,002,529,599
Refund assets and others		959,060,839	774,756,934
Accrued tobacco excise and other taxes		264,059,821,300	171,162,062,610
Advance payments		12,945,486,387	532,167,358
Prepaid expenses		14,713,244,360	6,784,143,597
<b>Total current assets</b>		<b>3,745,540,506,293</b>	<b>4,096,462,175,024</b>
<b>Non-current assets</b>			
Long-term other financial assets	23,24	54,040,591,658	42,409,642,939
Long-term deposits in MSA Escrow Fund	23,24	1,541,284,106,435	1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	23,24	344,360,450,608	313,603,030,687
Long-term trade and other receivables	5,22,23	221,417,285,278	136,915,925,866
Long-term financial assets measured at fair value through other comprehensive income or loss	23	167,114,727,820	159,228,150,120
Investments in associates and joint ventures	7,22,24	454,373,497,220	265,895,497,220
Investments in subsidiaries	8,22,24	1,416,278,057,313	1,230,060,147,705
Property, plant and equipment	9,22	1,198,560,694,239	1,177,839,389,576
Intangible assets	10	132,645,207,084	122,485,433,151
Investment properties	11,24	994,737,389,817	1,029,216,878,876
Right-of-use assets	12	28,596,875,052	25,640,239,743
Long-term prepaid expenses		10,011,081,259	5,738,434,892
Deferred tax assets	21	5,078,306,389	34,826,052,342
Net defined benefit assets	15,22	37,812,504,064	79,453,887,466
<b>Total non-current assets</b>		<b>6,606,310,774,236</b>	<b>6,060,443,083,998</b>
<b>Total assets</b>		<b>₩ 10,351,851,280,529</b>	<b>₩ 10,156,905,259,022</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	14,23,24	₩ -	₩ 113,402,621
Trade and other payables	22,23,24	1,399,249,164,453	1,225,737,342,674
Current lease liabilities	22,23	7,281,635,726	7,006,566,187
Derivative liabilities	23,24	7,921,325,933	-
Advance receipts	17	24,063,473,888	13,191,400,626
Current refund liabilities and provisions	16	7,524,064,678	9,647,020,723
Current tax liabilities	21	100,189,595,703	189,920,724,171
Tobacco excise and other taxes payables		698,099,423,010	592,076,394,448
<b>Total current liabilities</b>		<b>2,244,328,683,391</b>	<b>2,037,692,851,450</b>
<b>Non-current liabilities</b>			
Long-term borrowings and bond	14,23	299,088,266,868	-
Long-term trade and other payables	22,23,24	47,848,431,343	45,486,196,725
Long-term lease liabilities	22,23	18,779,260,839	17,333,148,601
Long-term advance receipts	17	3,488,023,685	960,666,324
Long-term refund liabilities and provisions	16	1,401,892,964	1,828,062,531
<b>Total non-current liabilities</b>		<b>370,605,875,699</b>	<b>65,608,074,181</b>
<b>Total liabilities</b>		<b>₩ 2,614,934,559,090</b>	<b>₩ 2,103,300,925,631</b>

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



(in Korean won)

	<u>Notes</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		3,990,772,922	3,582,160,908
Treasury shares		(1,539,661,069,829)	(1,236,932,914,379)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		7,227,440,554,207	6,814,100,369,559
Retained earnings		561,292,925,233	989,001,178,397
<b>Total equity</b>	₩	<u>7,736,916,721,439</u>	₩ <u>8,053,604,333,391</u>
<b>Total liabilities and equity</b>	₩	<u>10,351,851,280,529</u>	₩ <u>10,156,905,259,022</u>

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

# KT&G Corporation

## Interim Separate Statements of Comprehensive Income

For the three-month and nine-month periods ended September 30, 2023 and 2022 (Unaudited)



(in Korean won)

	Notes	September 30, 2023		September 30, 2022	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
<b>Sales</b>	4,22	W 976,105,611,000	W 2,679,759,440,334	W 970,448,322,517	W 2,781,644,466,655
Manufacture of tobacco		817,670,521,631	2,327,009,741,252	809,710,711,864	2,350,779,352,601
Real estate	17	120,751,753,952	245,013,890,570	123,416,676,777	326,135,295,074
Exports of leaf tobacco and others		37,683,335,417	107,735,808,512	37,320,933,876	104,729,818,980
<b>Cost of sales</b>	22	(489,803,227,971)	(1,324,563,355,586)	(443,895,969,171)	(1,285,522,481,733)
Manufacture of tobacco		(393,875,433,069)	(1,107,939,837,619)	(366,202,426,411)	(1,061,349,509,028)
Real estate	17	(68,523,672,225)	(127,283,884,845)	(53,201,729,970)	(141,843,611,812)
Exports of leaf tobacco and others		(27,404,122,677)	(89,339,633,122)	(24,491,812,790)	(82,329,360,893)
<b>Gross profit</b>		486,302,383,029	1,355,196,084,748	526,552,353,346	1,496,121,984,922
Selling, general and administrative expenses	18,22	(192,378,646,209)	(587,220,440,242)	(218,771,020,854)	(603,129,105,056)
<b>Operating profit</b>		293,923,736,820	767,975,644,506	307,781,332,692	892,992,879,866
Other income	19,22,23	64,650,274,570	167,030,150,870	269,833,039,908	524,111,859,149
Other expenses	19,22,23	(22,966,855,378)	(78,015,308,612)	(52,179,059,689)	(98,395,981,229)
Finance income	20,22,23	21,902,857,482	135,966,057,251	30,861,358,394	105,360,327,292
Finance costs	20,22,23	(11,786,479,026)	(16,374,988,059)	(533,982,247)	(32,901,218,379)
<b>Profit before income tax</b>		345,723,534,468	976,581,555,956	555,762,689,058	1,391,167,866,699
Income tax expense	21	(87,380,753,091)	(260,581,520,608)	(149,621,918,841)	(376,684,619,558)
<b>Profit for the period</b>		W 258,342,781,377	W 716,000,035,348	W 406,140,770,217	W 1,014,483,247,141
<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	W	634,480,966	(15,171,202,515)	(232,293,156)	(1,076,562,623)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss		7,051,900,096	5,738,621,251	(13,857,423,801)	(14,790,132,989)
		7,686,381,062	(9,432,581,264)	(14,089,716,957)	(15,866,695,612)
<b>Total comprehensive income for the period</b>		W 266,029,162,439	W 706,567,454,084	W 392,051,053,260	W 998,616,551,529
<b>Earnings per share</b>					
Basic and diluted earnings per share	W	2,230	6,180	3,385	8,455

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





# KT&G Corporation

## Interim Separate Statements of Changes in Equity

For the nine-month periods ended September 30, 2023 and 2022 (Unaudited)

(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserves	Retained earnings	Total equity
<b>Balance as of January 1, 2022</b>	954,959,485,000	3,582,160,908	(879,981,828,569)	528,894,053,906	6,515,544,663,691	877,116,550,879	8,000,115,074,815
<b>Total comprehensive income (loss) for the period</b>	-	-	-	W	W	W	W
Profit for the period	-	-	-	-	-	1,014,483,247,141	1,014,483,247,141
<b>Other comprehensive income (loss) for the period:</b>	-	-	-	-	-	(1,076,562,623)	(1,076,562,623)
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	(14,790,132,989)	-	(14,790,132,989)
Transfer from gain (loss) on disposal of financial assets measured at fair value through	-	-	-	-	8,330,221,000	(8,330,221,000)	-
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(6,459,911,989)	1,005,076,463,518	(5,454,835,471)
<b>Transactions with owners of the Company:</b>	-	-	-	-	(6,459,911,989)	1,005,076,463,518	(5,454,835,471)
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	-
<b>Total Transactions with owners of the Company</b>	-	-	-	-	301,212,920,479	(877,116,550,879)	(575,903,630,400)
<b>Balance as of September 30, 2022</b>	954,959,485,000	3,582,160,908	(879,981,828,569)	528,894,053,906	6,810,297,662,181	1,005,076,463,518	8,422,827,965,944
<b>Balance as of January 1, 2023</b>	954,959,485,000	3,582,160,908	(1,236,932,914,379)	528,894,053,906	6,814,100,369,559	989,001,178,397	8,053,604,333,391
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	716,000,035,348	716,000,035,348
Profit for the period	-	-	-	-	-	(15,171,202,515)	(15,171,202,515)
<b>Other comprehensive income (loss) for the period:</b>	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	5,738,621,251	-	5,738,621,251
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	5,738,621,251	(15,171,202,515)	(9,432,581,264)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	11,477,242,502	(15,171,202,515)	(3,693,958,713)
<b>Transactions with owners of the Company:</b>	-	-	-	-	5,738,621,251	700,828,832,833	706,567,454,084
Dividends	-	-	-	-	-	(720,935,522,600)	(720,935,522,600)
Transfer to other reserve	-	-	(302,728,155,450)	-	407,601,563,397	(407,601,563,397)	-
Acquisition of treasury shares	-	408,612,014	-	-	-	-	(302,728,155,450)
Share options	-	408,612,014	(302,728,155,450)	-	-	-	408,612,014
<b>Balance as of September 30, 2023</b>	954,959,485,000	3,990,772,922	(1,539,661,069,829)	528,894,053,906	7,227,440,554,207	561,292,925,233	7,736,916,721,439

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

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



<i>(in Korean won)</i>	Note	September 30, 2023	September 30, 2022
<b>Net cash flows provided by operating activities</b>		₩ 600,314,700,841	₩ 476,139,326,283
Cash generated from operations	25	917,585,716,033	823,210,068,717
Income taxes paid		(317,271,015,192)	(347,070,742,434)
<b>Net cash flows provided by (used in) investing activities</b>		(439,174,972,426)	514,179,833,484
Interest received		22,636,208,083	9,924,898,365
Dividends received		20,084,047,451	25,032,679,406
Decrease in other financial assets		36,340,300,000	290,000,000,000
Decrease in current financial assets measured at fair value through profit or loss		397,778,096,811	510,616,653,852
Decrease in long-term financial assets measured at fair value through profit or loss		4,846,098,989	1,749,303,339
Decrease in financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000
Disposal of property, plant and equipment		3,870,890,306	3,954,806,327
Disposal of intangible assets		1,029,981,134	300,000,000
Disposal of investment properties		8,402,699,000	-
Disposal of assets held for sale		187,516,937	62,512,576,176
Disposal of investments in associates and joint ventures		-	42,881,601,172
Collection of loans		13,513,527,242	12,534,945,292
Collection of guarantee deposits		37,828,387	-
Increase in other financial assets		(16,942,300,000)	(140,006,000,000)
Increase in current financial assets measured at fair value through profit or loss		(181,019,459,822)	-
Increase in long-term financial assets measured at fair value through profit or loss		(32,159,244,421)	(55,239,898,342)
Increase in financial assets measured at fair value through other comprehensive income		-	(2,999,982,000)
Increase in long-term deposits in MSA Escrow Fund		(1,634,902,232)	(95,124,966,619)
Acquisition of property, plant and equipment		(175,915,123,813)	(92,523,574,429)
Acquisition of intangible assets		(28,881,363,130)	(23,315,110,755)
Acquisition of investment properties		(13,127,422,937)	(10,149,103,412)
Acquisition of investments in associates and joint ventures		(188,478,000,000)	(29,488,895,600)
Acquisition of investments in subsidiaries		(190,873,711,810)	-
Increase in loans		(116,130,659,230)	(2,408,063,493)
Increase in guarantee deposits		(2,739,979,371)	(1,272,035,795)
<b>Net cash flows used in financing activities</b>		(736,227,174,790)	(582,249,162,772)
Dividends paid		(720,935,522,600)	(575,903,630,400)
Interest paid		(5,619,544,864)	(285,320,904)
Repayment of lease liabilities		(5,998,235,345)	(6,060,211,468)
Acquisition of treasury shares		(302,728,155,450)	-
Proceeds from short-term borrowings		1,230,000,000,000	-
Repayment of short-term borrowings		(1,230,019,084,931)	-
Proceeds from issuance of bond		299,073,368,400	-
<b>Net increase (decrease) in cash and cash equivalents</b>		(575,087,446,375)	408,069,996,995
<b>Cash and cash equivalents at the beginning of the period</b>		939,549,506,970	590,603,139,764
Effect of exchange rate fluctuation on cash and cash equivalents		7,214,604,645	12,481,518,877
<b>Cash and cash equivalents at the end of the period</b>	₩	<u>371,676,665,240</u>	₩ <u>1,011,154,655,636</u>

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

**1. Overview of the Company**

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 2023, the Company has 3 manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of the monopoly business of red ginseng and tobacco, the 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 Company into two companies by establishing up a subsidiary for red ginseng business, effective as of January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation of a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company’s contribution of the assets and liabilities into red ginseng business. On December 27, 2002, the Company changed its name from Korea Tobacco and Ginseng Corporation to KT&G Corporation.

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

## 2. Material Accounting Policies

### (1) Basis of Preparation

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

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

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

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2023, and these amendments and interpretations do not have a material impact on the interim separate financial statements.

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

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

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

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

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

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

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

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

**(3) Material Accounting Policies**

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

(a) Income Tax Expense

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

**3. Material Accounting Estimates and Assumptions**

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

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

**4. Operating Segment**

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

*(in millions of Korean won)*

		September 30, 2023		September 30, 2022	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Revenue recognized at a point in time:					
Sales of tobacco/merchandise and service revenue and others	Korea Wholesale and retail	582,603	1,648,372	569,171	1,613,410
	Korea Direct sales	1,441	3,638	688	2,200
	Export Wholesale and retail	233,627	675,000	239,851	735,169
Sales of semifinished tobacco products/raw materials and others	Korea Direct sales	984	14,868	2,496	6,141
	Export Direct sales	36,699	92,867	34,825	98,589
Sales and rental of real estate	Korea Sales	3,256	3,256	-	4,195
Subtotal		858,610	2,438,001	847,031	2,459,704
Revenue recognized over time:					
Sales and rental of real estate	Korea Sales	97,155	178,275	101,967	258,736
	Korea Rental	20,341	63,483	21,450	63,204
Subtotal		117,496	241,758	123,417	321,940
Total		976,106	2,679,759	970,448	2,781,644

**5. Trade and Other Receivables**

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

(in millions of Korean won)

	September 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Trade receivables	1,282,351	87,235	1,065,807	36,529
Loans	157,008	83,369	78,465	50,512
Other receivables	109,929	8,872	120,629	10,197
Guarantee deposits	42,888	34,494	23,290	37,806
Accrued income	6,621	7,447	11,750	1,872
Total	1,598,797	221,417	1,299,941	136,916

(b) Details of allowances for doubtful accounts for trade and other receivables (as a gross amount, before deduction of allowances for doubtful accounts) as of September 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	September 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Total carrying amount	1,656,711	361,307	1,378,601	261,723
Allowances:				
Trade receivables	(53,630)	(100,632)	(70,546)	(87,988)
Other receivables	(4,284)	(39,258)	(8,114)	(36,819)
Total allowances	(57,914)	(139,890)	(78,660)	(124,807)
Net trade and other receivables	1,598,797	221,417	1,299,941	136,916

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

(in millions of Korean won)

	September 30, 2023	September 30, 2022
Beginning balance	203,467	211,516
Impairment loss (reversal of impairment loss)	(5,663)	24,541
Ending balance	197,804	236,057

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

**6. Inventories**

(a) Details of inventories as of September 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	September 30, 2023			December 31, 2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	21,296	(2,340)	18,956	24,145	(1,825)	22,320
Finished goods	127,985	(12,402)	115,583	132,967	(10,264)	122,703
Half-finished goods	46,299	(1,010)	45,289	40,790	(988)	39,802
Work in progress	3,417	-	3,417	5,400	-	5,400
Raw materials	649,963	(233)	649,730	666,967	(268)	666,699
Materials	37,094	(3,718)	33,376	40,094	(6,302)	33,792
Supplies	56,288	-	56,288	49,188	-	49,188
By-products	6,012	-	6,012	5,140	-	5,140
Buildings under construction	104,915	-	104,915	61,597	-	61,597
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate	94,568	-	94,568	62,906	-	62,906
Goods in transit	42,408	-	42,408	52,093	(127)	51,966
Total	1,191,735	(19,703)	1,172,032	1,142,777	(19,774)	1,123,003

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

(in millions of Korean won)

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories	2,063	(71)	(246)	(2,396)
Loss on obsolescence of inventories	210	4,758	740	3,047
Other expenses:				
Loss on obsolescence of inventories	-	260	-	-
Total	2,273	4,947	494	651



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

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

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	September 30, 2023		December 31, 2022	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	Manufacturing medical supplies	12.53 \	1,830	12.53 \	1,830
	KORAMCO Banpo PFV Co., Ltd. <sup>1,2</sup>	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT <sup>3</sup>	Korea	Real estate investment, development and rental business	26.47	39,568	26.47	39,568
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Cheongna Medipolis PFV Co., Ltd. <sup>4</sup>	Korea	Real estate development and sales business	57.71	101,000	56.74	17,022
	INNODIS Co., Ltd. <sup>1</sup>	Korea	Game, advertizing agency	19.64	55	19.64	55
	SJ BIO MED Co., Ltd. <sup>1,6</sup>	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	21.92	-	22.73	-
Joint ventures	Mirae Asset KT&G Investment Fund I	Korea	Investment	45.00	9,000	45.00	4,500
	KORAMCO Europe Private REIT 3-2 Fund <sup>5</sup>	Germany	Renting of real estate	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	Real estate development and rental business	50.00	244,500	50.00	144,500
Total				\	<u>454,373</u>	\	<u>265,895</u>

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

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

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

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

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

<sup>6</sup>As of September 30, 2023, reporting of business closure and liquidation procedures are in progress.

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

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

For the nine-month period ended September 30, 2023, the Company additionally acquired 16,795,600 preferred shares(₩ 83,978 million) of Cheongna Medipolis PFV CO., Ltd. through the issuance of new stocks.

For the nine-month period ended September 30, 2023, the Company additionally acquired 2,000,000 shares (₩ 100,000 million) of Starfield Suwon Inc. through the issuance of new stocks.

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

**8. Investments in subsidiaries**

(a) Details of investments in subsidiaries as of September 30, 2023 and December 31, 2022, are as follows:

(in millions of Korean won)

Name of entity	Location	Principal operation	September 30, 2023		December 31, 2022	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	\ 762,130	100.00	\ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industrial Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	117,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	Manufacturing and selling tobaccos	99.99	52,649	99.99	31,415
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	-	100.00	-
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	Holding Company	100.00	163,104	100.00	163,104
PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	Manufacturing and selling tobacco	6.56	1,162	-	-
PT KT&G Indonesia <sup>2</sup>	Indonesia	Selling tobaccos	-	-	99.99	1,162
SangSang Stay Inc.	Korea	Hotel business	100.00	31,802	100.00	2,068
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon Sangsang PFV. Inc.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	100.00	8,081
Mastern No.144 PFV Co., Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
KT&G Global Kazakhstan LLP	Kazakhstan	Selling tobaccos	100.00	18,510	-	-
KT&G Kazakhstan LLP	Kazakhstan	Manufacturing and selling tobacco	100.00	16,188	-	-
DNC Deogeun Co., Ltd. <sup>3</sup>	Korea	Real estate development and sales business	38.25	35,552	-	-
				\ 1,416,278		\ 1,230,060

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

<sup>2</sup>PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged with PT KT&G Indonesia, the subsidiary of the Company, during the nine-month period ended September 30, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makmur in exchange for 104,986 shares of PT KT&G Indonesia. The consolidated percentage of ownership of PT Trisakti Purwosari Makmur is 99.99%, including shares held by Renzoluc Pte., Ltd., the subsidiary of the Company, as of September 30, 2023.

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

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

The Company acquired 75,344,496 shares (₩ 25,623 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., 6,000,000 shares (₩ 30,000 million) of SangSang Stay Inc. and 1,408,940 shares (₩ 65,000 million) of Tae-A Industrial Co., Ltd. during the nine-month period ended September 30, 2023, through issuance of new stocks.

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

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

**(b) Impairment**

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

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

*(in millions of Korean won)*

	September 30, 2023	September 30, 2022	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	4,390	-	Fair value less costs to sell
SangSang Stay Inc.	266	3,292	Fair value less costs to sell
	4,656	3,292	

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

**9. Property, Plant and Equipment**

Changes in property, plant and equipment for the nine-month periods ended September 30, 2023 and 2022 are as follows:

*(in millions of Korean won)*

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Beginning balance	1,177,839	1,128,957
Acquisition <sup>1</sup>	124,786	104,953
Disposal/Impairment	(9,333)	(2,829)
Depreciation	(75,635)	(73,899)
Reclassification and others <sup>2</sup>	(19,096)	(28,793)
Ending balance	<u>1,198,561</u>	<u>1,128,389</u>

<sup>1</sup>During the nine-month period ended September 30, 2023, the Company has capitalized ₩ 492 million of borrowing costs on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 4.80%.

<sup>2</sup>Includes ₩ 19,064 million of transfers to investment properties and ₩ 32 million of transfers to inventories for the nine-month period ended September 30, 2023, and ₩ 27,849 million of transfers to investment properties, ₩ 714 million of transfers to inventories and ₩ 230 million of transfers to intangible assets for the nine-month period ended September 30, 2022.

**10. Intangible Assets**

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

*(in millions of Korean won)*

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Beginning balance	122,485	97,363
Acquisition	26,900	23,693
Disposal/Impairment	(1,441)	(418)
Amortization	(15,286)	(9,346)
Reclassification and others	(13)	231
Ending balance	<u>132,645</u>	<u>111,523</u>

**11. Investment Properties**

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

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Beginning balance	1,029,217	1,128,470
Acquisition <sup>1</sup>	13,127	10,149
Disposal/Impairment	(1,775)	-
Depreciation	(20,728)	(19,956)
Reclassification and others <sup>2</sup>	(25,104)	(64,601)
Ending balance	<u>994,737</u>	<u>1,054,062</u>

<sup>1</sup>During the nine-month period ended September 30, 2023, the Company has capitalized ₩ 528 million of borrowing costs on investment properties that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 4.80%.

<sup>2</sup>Includes ₩ 19,064 million of transfers from property, plant and equipment and ₩ 44,168 million of transfers to inventories for the nine-month period ended September 30, 2023, and ₩ 27,849 million of transfers from property, plant and equipment, ₩ 22,647 million of transfers to assets held for sale and ₩ 69,803 million of transfers to inventories for the nine-month period ended September 30, 2022.

**12. Right-of-use Assets**

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

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Beginning balance	25,640	22,644
Acquisition	11,044	4,523
Disposal/Change	(531)	(257)
Depreciation	(7,556)	(6,790)
Ending balance	<u>28,597</u>	<u>20,120</u>

**13. Assets Held for Sale**

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

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

<sup>1</sup>Includes ₩ 22,647 million of transfers from investment properties, and ₩ 1,159 million of transfers from investment in associates for the nine-month period ended September 30, 2022.

**14. Borrowings and Bond**

(a) Details of short-term borrowings as of September 30, 2023 and December 31, 2022 are as follows:

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

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

(b) Details of bond as of September 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>Issuance date</u>	<u>Maturity</u>	<u>Annual interest rate (%)</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
2-1st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	\ 100,000 \	-
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	-
	Subtotal			300,000	-
	Discount on bond			(912)	-
	Total			\ 299,088 \	-
Separate statements of financial position:					
Current				-	-
Non-current				299,088	-
	Total			\ 299,088 \	-

**15. Employee Benefits**

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

*(in millions of Korean won)*

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Defined benefit plans:				
Current service cost	\ 7,312	\ 20,982	\ 7,948	\ 23,843
Net interest on net defined benefit liabilities (assets)	(541)	(2,600)	(74)	(222)
Subtotal	6,771	18,382	7,874	23,621
Defined contribution plan:				
Contributions recognized as expense	1,379	4,138	1,347	4,068
Other long-term employee benefits:				
Current service cost, etc.	1,119	4,120	1,011	3,062
Termination benefits:				
Voluntary retirements, etc.	-	355	-	1,772
Total	\ 9,269	\ 26,995	\ 10,232	\ 32,523

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

*(in millions of Korean won)*

	September 30, 2023	December 31, 2022
Present value of defined benefit obligations	\ 379,811	\ 353,822
Fair value of plan assets	(417,624)	(433,276)
Total	\ (37,813)	\ (79,454)



**16. Refund Liabilities and Provisions**

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

(in millions of Korean won)

	September 30, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	2,373	-	4,172	-
Refund liabilities	4,950	1,271	5,197	1,592
Provision for site restoration	84	102	84	102
Provision for financial guarantee	48	29	-	134
Provision for greenhouse gases	69	-	194	-
Total	7,524	1,402	9,647	1,828

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

(in millions of Korean won)

	September 30, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,172	1,460	(3,259)	2,373
Refund liabilities	6,789	88	(656)	6,221
Provision for site restoration	186	84	(84)	186
Provision for financial guarantee	134	29	(86)	77
Provision for greenhouse gases	194	-	(125)	69
Total	11,475	1,661	(4,210)	8,926

(in millions of Korean won)

	September 30, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,915	-	(538)	4,377
Refund liabilities	5,526	584	-	6,110
Provision for site restoration	141	83	(62)	162
Provision for financial guarantee	271	-	(107)	164
Provision for greenhouse gases	269	-	(76)	193
Total	11,122	667	(783)	11,006

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

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

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	September 30, 2023					
			Progress (%)	Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative) <sup>2</sup>	Revenue (period)	Cost (cumulative) <sup>3</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	803,056	750,352	750,328	123,637	348,542
ePyeonghansesang Daejeon station Centum Vista	December 2022	June 2026	18.99	226,951	194,148	36,865	36,340	30,422
Nokbeon-dong Mixed-Use building	April 2023	February 2025	19.03	29,720	25,220	4,799	4,799	3,144
Elif Mia station Complex 1	May 2023	August 2026	8.51	61,562	25,568	2,176	2,176	1,563
Elif Mia station Complex 2	May 2023	August 2026	8.84	155,141	88,161	7,797	7,797	5,434
Gireum-dong Neighborhood Commercial Facilities	July 2023	December 2023	12.78	27,580	27,580	3,526	3,526	236
Total				1,304,010	1,111,029	805,491	178,275	389,341

<sup>1</sup>Includes the expected sales value for commercial buildings, officetels that is scheduled to be recognized as sales on a delivery basis.

<sup>2</sup>This is the amount after deducting prepayment discounts from the total sales contract value.

<sup>3</sup>Excludes the cumulative cost for common infrastructure, amounting to ₩ 109,492 million.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	September 30, 2023					
			Progress (%)	Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>2</sup>	Cost (cumulative) <sup>3</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	67.12	791,406	750,278	503,611	258,736	226,524

<sup>1</sup>Includes the expected sales value for commercial buildings that is scheduled to be recognized as sales on a delivery basis.

<sup>2</sup>Excludes ₩ 4,195 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 September 30, 2022.

<sup>3</sup>Excludes the cumulative cost for common infrastructure, amounting to ₩ 62,811 million.

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

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

(in millions of Korean won)

Construction project	September 30, 2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	750,328	488,902	268,080	6,654
ePyeonghansang Daejeon station Centum Vista	36,865	23,969	13,612	716
Nokbeon-dong Mixed-use building	4,799	-	4,799	-
Elif Mia station Complex 1	2,176	2,900	-	724
Elif Mia station Complex 2	7,797	10,620	48	2,871
Gireum-dong Neighborhood Commercial Facilities	3,526	5,516	-	1,990
Total	805,491	531,907	286,539	12,955

(in millions of Korean won)

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

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the nine-month period ended September 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 September 30, 2023 and subject to change in the future.

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

Details of selling, general and administrative expenses for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Salaries	77,901	229,713	71,451	214,033
Retirement and termination benefits	5,539	15,497	6,293	20,447
Employee welfare	12,134	32,195	10,445	28,891
Travel expenses	3,754	10,215	4,142	8,955
Communication cost	635	2,037	662	2,090
Utilities	4,205	10,925	3,573	9,387
Taxes and dues	689	24,799	474	23,642
Supplies	385	1,724	393	1,294
Rent	2,645	6,287	2,325	5,953
Depreciation	4,828	21,475	7,654	24,584
Amortization	5,741	15,189	4,588	9,256
Repairs and maintenance	1,946	3,523	1,568	3,468
Vehicles	837	2,422	961	2,816
Insurance	389	1,043	249	654
Commissions	32,424	113,287	39,150	113,585
Freight and custody	5,711	16,963	5,410	14,792
Conferences	715	2,266	689	1,855
Advertising	21,708	62,303	24,574	73,605
Education and training	1,492	4,496	1,287	2,765
Prizes and rewards	283	1,062	216	862
Research and development	5,790	14,079	7,333	15,330
Impairment loss (reversal of impairment loss) on trade receivables	2,627	(4,280)	25,334	24,865
Total	192,378	587,220	218,771	603,129

**19. Other Income and Expenses**

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

(in millions of Korean won)

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Gain on foreign currency transaction	6,998	22,847	25,453	44,387
Gain on foreign currency translation	53,862	123,846	221,321	410,649
Gain on valuation of derivatives	1,424	5,988	-	-
Reversal of impairment loss on other receivables	2,334	1,383	-	1,539
Gain on disposal of property, plant and equipment	14	1,415	1,901	4,688
Gain on disposal of intangible assets	3	3	-	-
Gain on disposal of investment properties	-	6,732	-	-
Gain on lease contract adjustments	15	47	-	3
Gain on disposal of assets held for sale	-	-	-	32,037
Gain on disposal of investments in associates and joint ventures	-	-	15,603	19,962
Miscellaneous income	-	4,769	5,555	10,847
Total	64,650	167,030	269,833	524,112

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

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

(in millions of Korean won)

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Loss on foreign currency transaction	3,757	12,729	5,406	13,470
Loss on foreign currency translation	3,355	22,114	1,203	2,624
Loss on valuation of derivatives	8,958	22,374	42,499	71,460
Loss on impairment of other receivables	-	-	320	1,215
Loss on disposal of property, plant and equipment	24	1,753	586	801
Loss on impairment of property, plant and equipment	1,165	7,082	-	511
Loss on disposal of intangible assets	9	9	1	17
Loss on impairment of intangible assets	282	405	10	101
Loss on disposal of investment properties	-	59	-	-
Loss on disposal of assets held for sale	-	-	-	1,218
Loss on impairment of investments in subsidiaries	-	4,656	371	3,292
Loss on lease contract adjustments	4	10	-	4
Donations	983	1,994	1,518	3,208
Miscellaneous loss	4,430	4,830	265	475
Total	22,967	78,015	52,179	98,396

**20. Finance Income and Costs**

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

(in millions of Korean won)

	September 30, 2023		September 30, 2022	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Finance income:				
Interest income <sup>1</sup>	16,249	44,820	9,605	18,023
Dividend income	3,736	54,301	6,519	44,231
Gain on valuation of financial assets measured at fair value through profit or loss	1,918	36,845	14,737	43,106
Total finance income	21,903	135,966	30,861	105,360
Finance cost:				
Interest expense	5,811	8,454	453	1,463
Loss on valuation of financial assets measured at fair value through profit or loss	5,976	7,921	81	21,138
Other financial expense	-	-	-	10,300
Total finance cost	11,787	16,375	534	32,901
Net finance income	10,116	119,591	30,327	72,459

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

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

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full fiscal year. The average effective tax rates for the nine-month periods ended September 30, 2023 and 2022, are 26.68% and 27.08%, respectively.

**22. Related Parties**

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

Type	Name of entity	Location	Percentage of ownership (%)						
			September 30, 2023			December 31, 2022			
			Parent	Subsidiary	Total	Parent	Subsidiary	Total	
Subsidiaries	Korea Ginseng Corporation	Korea	100.00	-	100.00	100.00	-	100.00	
	Yungjin Pharm. Co., Ltd.	Korea	52.45	-	52.45	52.45	-	52.45	
	Tae-A Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Türkiye	99.99	-	99.99	99.99	-	99.99	
	Korea Tabacos do Brasil Ltda.	Brazil	99.99	-	99.99	99.99	-	99.99	
	KT&G Pars	Iran	99.99	-	99.99	99.99	-	99.99	
	KT&G Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00	
	KT&G USA Corporation	USA	100.00	-	100.00	100.00	-	100.00	
	Cosmococ Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56	
	Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	100.00	-	100.00	100.00	-	100.00	
	PT KT&G Indonesia <sup>2</sup>	Indonesia	-	-	-	99.99	-	99.99	
	PT Trisakti Purwosari Makmur <sup>2</sup>	Indonesia	6.56	93.43	99.99	-	99.99	99.99	
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Global Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00	
	Gwacheon Sangsang PFV. Inc.	Korea	51.00	-	51.00	51.00	-	51.00	
	KT&G Taiwan Corporation	Taiwan	100.00	-	100.00	100.00	-	100.00	
	Mastern No.144 PFV Co., Ltd.	Korea	92.50	-	92.50	92.50	-	92.50	
	KT&G Global Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-	
	KT&G Kazakhstan LLP <sup>3</sup>	Kazakhstan	100.00	-	100.00	-	-	-	
	DNC Deogeun Co., Ltd. <sup>4</sup>	Korea	38.25	-	38.25	-	-	-	
	K&I China Co., Ltd.	China	-	98.56	98.56	-	98.56	98.56	
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00	
	KGC Life&Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00	
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00	
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00	
	Korean Red Ginseng Corp. Inc.	USA	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng Corp. Japan	Japan	-	100.00	100.00	-	100.00	100.00	
	PT Nusantara Indah Makmur	Indonesia	-	99.96	99.96	-	99.96	99.96	
	Associates	LitePharmTech Co., Ltd. <sup>5</sup>	Korea	12.53	-	12.53	12.53	-	12.53
		KORAMCO Banpo PFV Co., Ltd. <sup>5</sup>	Korea	18.95	-	18.95	18.95	-	18.95
		KORAMCO Dongjak PFV Co., Ltd. <sup>5</sup>	Korea	19.47	-	19.47	19.47	-	19.47
KOCREF 36 REIT		Korea	21.01	-	21.01	21.01	-	21.01	
KOCREF 41 REIT <sup>6</sup>		Korea	26.47	-	26.47	26.47	-	26.47	
AndaStation Professional Investment Private REIT No.1		Korea	21.43	-	21.43	21.43	-	21.43	
Cheongna Medipolis PFV Co., Ltd. <sup>7</sup>		Korea	57.71	-	57.71	56.74	-	56.74	
INNODIS Co., Ltd. <sup>5</sup>		Korea	19.64	-	19.64	19.64	-	19.64	
SJ BIO MED Co., Ltd. <sup>5,8</sup>		Korea	14.39	-	14.39	14.39	-	14.39	
LSK Global Pharma Service Co., Ltd.		Korea	21.92	-	21.92	22.73	-	22.73	
Mirae Asset KT&G Investment Fund I <sup>9</sup>		Korea	45.00	5.00	50.00	45.00	5.00	50.00	
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.		Korea	-	35.00	35.00	-	-	-	
Joint ventures		KORAMCO Europe Private REIT 3-2 Fund <sup>10</sup>	Germany	51.35	-	51.35	51.35	-	51.35
	Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00	

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

**22. Related Parties (Continued)**

<sup>2</sup>PT Trisakti Purwosari Makmur, the subsidiary of the Company, merged PT KT&G Indonesia, the subsidiary of the Company, during the nine-month period ended September 30, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makur in exchange for 104,986 (99.99%) shares of PT KT&G Indonesia. The consolidated percentage of ownership of PT Trisakti Purwosari Makmur is 99.99%, including shares held by Renzoluc Pte., Ltd., the subsidiary of the Company, as of September 30, 2023.

<sup>3</sup>The Company acquired 100.00% of KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the nine-month period ended September 30, 2023, and the Company has classified the shares as investments in subsidiaries.

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

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

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

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

<sup>8</sup>As of September 30, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>9</sup>The Company and Korea Ginseng Corporation, the subsidiary of the Company, acquired 50.00% of Mirae Asset KT&G Investment I during the year ended December 31, 2022, and the Company classified the shares as investments in associates.

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

**22. Related Parties (Continued)**

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

**① Sales and other income**

(in millions of Korean won)

Type	Name of entity	September 30, 2023		September 30, 2022		
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	
Subsidiaries	Korea Ginseng Corporation	2,965	9,967	3,319	8,039	
	Yungjin Pharm. Co., Ltd.	311	876	226	437	
	Tae-A Industrial Co., Ltd.	215	600	113	336	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	1,143	16,581	2,295	9,708	
	Korea Tabacos do Brasil Ltda. <sup>1</sup>	-	-	1	3	
	KT&G Rus L.L.C. <sup>1</sup>	12,447	36,277	19,393	45,096	
	KT&G USA Corporation <sup>1</sup>	9	18	-	-	
	Cosmococ Co., Ltd.	27	67	10	22	
	PT KT&G Indonesia <sup>1</sup>	-	-	202	471	
	PT Trisakti Purwosari Makmur <sup>1</sup>	13,377	42,424	9,753	32,109	
	SangSang Stay Inc.	1,231	3,689	1,215	3,657	
	KT&G Global Rus L.L.C. <sup>1</sup>	1,384	4,962	51	227	
	Gwacheon Sangsang PFV. Inc.	-	36,939	-	20,824	
	KT&G Taiwan Corporation	4,332	10,905	3,193	3,364	
	KT&G Kazakhstan LLP	7	11	-	-	
	KT&G Global Kazakhstan LLP	245	304	-	-	
	KGCyebon Corporation	6	22	6	16	
	KGC Life&Gin Co., Ltd.	14	44	19	57	
	Associates	KOCREF 36 REIT	-	600	-	600
		KOCREF 41 REIT	-	914	-	822
AndaStation Professional Investment Private REIT No.1		-	473	473	473	
Kiwoom Milestone Private REIT No.16		-	-	606	1,399	
Joint venture	KORAMCO Europe Private REIT 3-2 Fund	-	-	-	648	
	Total	37,713	165,673	40,875	128,308	

<sup>1</sup>Excludes impairment loss of ₩ 7,641 million and ₩ 14,673 million in relation to the related parties for the nine-month periods ended September 30, 2023 and 2022.

**② Purchases and other expenses**

(in millions of Korean won)

Type	Name of entity	September 30, 2023		September 30, 2022		
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	
Subsidiaries	Korea Ginseng Corporation	368	955	406	1,114	
	Yungjin Pharm. Co., Ltd.	2	224	31	277	
	Tae-A Industrial Co., Ltd.	9,092	28,229	7,869	22,311	
	Cosmococ Co., Ltd.	14	17	261	278	
	SangSang Stay Inc.	17	155	64	126	
	KGCyebon Corporation	206	618	769	1,181	
	KGC Life&Gin Co., Ltd.	211	214	1	8	
	PT Trisakti Purwosari Makmur	-	14	-	7	
	Associate	INNODIS Co., Ltd.	73	196	96	626
	Joint venture	Starfield Suwon Inc.	-	-	-	68
Total		9,983	30,622	9,497	25,996	



**22. Related Parties (Continued)**

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

<i>(in millions of Korean won)</i>		September 30, 2023		December 31, 2022	
Type	Name of entity	Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation \	1,252 \	2,098 \	14 \	2,210
	Yungjin Pharm. Co., Ltd. <sup>2</sup>	4,880	51	-	67
	Tae-A Industrial Co., Ltd.	-	8,802	-	4,492
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	57,796	-	46,130	-
	Korea Tabacos do Brasil Ltda. <sup>1,2</sup>	122	-	122	-
	KT&G Pars <sup>1,2</sup>	44,526	-	44,526	-
	KT&G Rus L.L.C. <sup>1</sup>	90,032	-	70,857	-
	KT&G USA Corporation <sup>1</sup>	53,094	336	53,094	317
	Cosmocos Co., Ltd.	25	2	-	-
	SangSang Stay Inc.	3	110	-	-
	PT KT&G Indonesia <sup>1,2</sup>	-	-	26,296	-
	PT Trisakti Purwosari Makmur <sup>1,2</sup>	195,374	52	100,450	-
	KT&G Global Rus L.L.C. <sup>1</sup>	6,569	-	167	-
	Gwacheon Sangsang PFV. Inc. <sup>3</sup>	57,763	-	21,079	-
	KGCyebon Corporation	-	7,902	-	8,362
	KGC Life&Gin Co., Ltd.	-	-	-	115
	KT&G Kazakhstan LLP	11	-	-	-
	KT&G Global Kazakhstan LLP <sup>2</sup>	9,664	-	-	-
	KT&G Taiwan Corporation	3,635	-	4,380	-
	Associates	AndaStation Professional Investment Private REIT No.1	-	-	481
INNODIS Co., Ltd.		-	-	-	35
Joint venture	Starfield Suwon Inc.	-	-	70	-
	Total \	524,746 \	19,353 \	367,666 \	15,598

<sup>1</sup>Presented in total amount before deducting loss allowance of ₩ 145,383 million and ₩ 137,742 million as of September 30, 2023 and December 31, 2022.

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

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

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

<i>(in millions of Korean won)</i>		September 30, 2023	September 30, 2022
Type	Name of entity	Sale of property, plant and equipment	Sale of property, plant and equipment
Subsidiary	PT Trisakti Purwosari Makmur \	3,120 \	12,119

**22. Related Parties (Continued)**

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

(in millions of Korean won)		September 30, 2023			September 30, 2022		
		Equity investment	Repayment of lease liabilities	Loan of Fund	Equity investment	Repayment of lease liabilities	Equity recovery
Subsidiaries	SangSang Stay Inc.	30,000	-	-	-	-	-
	Yungjin Pharm. Co., Ltd.	-	-	4,500	-	-	-
	KGCyebon Corporation	-	461	-	-	453	-
	PT Trisakti Purwosari Makmur	-	-	58,627	-	-	-
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	25,623	-	-	-	-	-
	KT&G Kazakhstan LLP	16,188	-	-	-	-	-
	KT&G Global Kazakhstan LLP	18,510	-	9,319	-	-	-
	Tae-A Industrial Co., Ltd.	65,000	-	-	-	-	-
	DNC Deogeun Co., Ltd.	35,552	-	-	-	-	-
	Associates	KOCREF 41 REIT	-	-	-	29,489	-
Mirae Asset KT&G Investment Fund I		4,500	-	-	-	-	-
Cheongna Medipolis PFV Co., Ltd.		83,978	-	-	-	-	-
Kiwoom Milestone Private REIT No.16		-	-	-	-	-	30,603
Joint venture	Starfield Suwon Inc.	100,000	-	-	-	-	-
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>	-	-	-	-	-	24,353
	KORAMCO Amsa PFV Co., Ltd. <sup>2</sup>	-	-	-	-	-	1,749
	Total	379,351	461	72,446	29,489	453	68,984

<sup>1</sup>The Company excluded the entity form related parties, as the entity was sold to the third-party during the nine-month period ended September 30, 2022.

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

(f) As of September 30, 2023, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan (see Note 24 (c)).

(g) During the nine-month period ended September 30, 2023, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococs Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds and other management-related business support.

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

(i) The Company has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of September 30, 2023, the capital contribution has been completed. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

**22. Related Parties (Continued)**

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

(k) As of September 30, 2023, the Company has entered into a capital call agreement in relations to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

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

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

(n) As of September 30, 2023, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Notes 7 and 24 (c)).

(o) Key management personnel compensation for the nine-month periods ended September 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Short-term and long-term employee benefits	15,700	14,665
Retirement benefits	1,515	1,833
Total	<u>17,215</u>	<u>16,498</u>

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

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

**(a) Market risk**

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

**① Currency risk**

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

**② Price risk**

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

**③ Interest rate risk**

The Company is exposed to the risk of interest rate fluctuation related to its trade payables and other payables, and lease liabilities. The Company's management maintains an appropriate balance between the fixed and variable interest borrowings by regularly measuring the risk that the fair values or future cash flows of financial instruments may fluctuate due to the changes in market interest rate. The effect of interest rate change on fair values or future cash flows of financial liabilities is immaterial considering the volume of the variable interest rate liability as of September 30, 2023.

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

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

As of September 30, 2023 and December 31, 2022, the carrying amount of financial assets is the maximum exposure to credit risk.

**(c) Liquidity risk**

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

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

(d) Details of the carrying amounts of each category of financial instrument as of September 30, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Financial assets:		
Financial assets measured at fair value through profit or loss <sup>1</sup> \	546,188 \	1,044,615
Financial assets measured at fair value through other comprehensive income or loss	167,115	159,228
Derivative assets	1,018	23,069
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	371,677	601,644
Other financial assets	161,552	180,950
Trade and other receivables	1,820,215	1,436,857
Long-term deposits	1,541,284	1,437,130
Subtotal	<u>3,894,728</u>	<u>3,656,581</u>
Total financial assets \	<u>4,609,049 \</u>	<u>4,883,493</u>
Financial liabilities:		
Derivative liabilities \	7,921 \	-
Financial liabilities measured at amortized cost		
Short-term borrowings	-	113
Debentures	299,088	-
Trade and other payables	1,085,991	900,384
Lease liabilities	26,061	24,340
Subtotal	<u>1,411,140</u>	<u>924,837</u>
Total financial liabilities \	<u>1,419,061 \</u>	<u>924,837</u>

<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.

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

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

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

Details of the fair values of financial instruments measured by each fair value hierarchy as of September 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	September 30, 2023			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss	546,188	-	184,371	361,816
Fair value through other comprehensive income or loss	167,115	158,115	-	9,000
Derivative assets	1,018	-	1,018	-
Total financial assets	<u>714,321</u>	<u>158,115</u>	<u>185,389</u>	<u>370,816</u>
Derivative liabilities	7,921	-	7,921	-

(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>	1,044,615	-	693,490	351,125
Fair value through other comprehensive income or loss	159,228	150,228	-	9,000
Derivative assets	23,069	-	23,069	-
Total financial assets	<u>1,226,912</u>	<u>150,228</u>	<u>716,559</u>	<u>360,125</u>

<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 nine-month period ended September 30, 2023 and the year ended December 31, 2022.

As of September 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 nine-month periods ended September 30, 2023 and 2022 are as follows:

(in millions of Korean won)

	September 30, 2023	September 30, 2022
Beginning balance	360,125	312,642
Acquisition	34,118	58,180
Disposal	(28,279)	(18,476)
Transfers	-	(28,300)
Changes in fair value	4,852	6,367
Ending balance	<u>370,816</u>	<u>330,413</u>

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

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

(in millions of Korean won)

	September 30, 2023					Total
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	
Profit (loss) for the period:						
Interest income	\ - \	- \	- \	44,820 \	- \	44,820
Dividend income	7,699	7,676	-	-	-	15,375
Gain or loss on valuation	28,924	-	(16,386)	-	-	12,538
Gain on lease contract adjustments	-	-	-	-	37	37
Interest expense	-	-	-	-	(8,454)	(8,454)
Reversal of impairment loss	-	-	-	5,663	-	5,663
Total	\ 36,623 \	\ 7,676 \	\ (16,386) \	\ 50,483 \	\ (8,417) \	69,979
Other comprehensive income(loss) before tax						
Net change in fair value	\ - \	7,887 \	- \	- \	- \	7,887

(in millions of Korean won)

	September 30, 2022					Total
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	
Profit (loss) for the period:						
Interest income	\ - \	- \	- \	18,023 \	- \	18,023
Dividend income	10,646	8,819	-	-	-	19,465
Gain or loss on valuation	21,968	-	(71,460)	-	-	(49,492)
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(1,463)	(1,463)
Impairment loss	-	-	-	(24,541)	-	(24,541)
Total	\ 32,614 \	\ (1,481) \	\ (71,460) \	\ (6,518) \	\ (1,463) \	(48,308)
Other comprehensive income(loss) before tax						
Net change in fair value	\ - \	(20,400) \	- \	- \	- \	(20,400)



**24. Contingent Liabilities and Commitments**

(a) Litigation cases

As of September 30, 2023, the Company has 5 pending litigations where the Company is in the position of the defendant, and the litigation amounts amount to ₩ 57,109 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the separate financial statements of the Company as of September 30, 2023.

(b) Commitments with financial institutions

The Company's major arrangements with financial institutions as of September 30, 2023 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank	USD	100,000	84,562
Derivatives trading <sup>1</sup>	KB Kookmin Bank and five others	USD	323,500	11,897
Limit loan	NH Nonghyup Bank and three others	KRW	700,000	-

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

As of September 30, 2023, the Company has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 113,350 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Company as of September 30, 2023 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	650,809	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	18,214	License guarantee, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves.

As of September 30, 2023, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

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

Details of payment guarantees provided by the Company to other parties as of September 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 \	62,311	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	7,766	515	Loan guarantee for the intermediate payment of off-plan sales construction

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

Details of assets pledged as collaterals as of September 30, 2023 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment properties	\ 423,445 \	20,165 \	26,072	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
Other financial assets and other receivables	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	1,553	-	1,553	Korea Housing Urban Guarantee Corporation	Collateral for unsecured site
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
	600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Financial assets at fair value through profit or loss	5,000	-	5280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Investments in Associates	5,306	-	5,306	Hyundai Marine & Fire Insurance & NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	\ 446,811 \	20,762 \	49,838		

<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.

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

Details of restricted financial assets as of September 30, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

		September 30, 2023	December 31, 2022
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
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	-
	Security deposits for checking accounts, etc.	2	-
Financial assets at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	5,000	-
	Total	118,062	112,460

## (d) Others

Each year, the Company deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Company inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Company, in whole, after 25 years from each date of deposit. The Company recognized ₩ 1,541,284 million in long-term deposits for MSA Escrow Fund as of September 30, 2023 (as of December 31, 2022: ₩ 1,437,130 million), and they consist of T-Bond and demand deposits.

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

As of September 30, 2023, the Company has entered into a capital call agreement in relations to the Company's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

The Company has entered into a capital contribution agreement in relations to debt instruments of Smilegate-Newdeal fund, etc., with the ceiling of ₩ 110,692 million. As of September 30, 2023, the outstanding contribution amount is ₩ 44,587 million, and the detailed timeline for contribution is yet to be determined.

The Company has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of September 30, 2023, the capital contribution has been completed. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

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

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

As of September 30, 2023, the Company is being provided with a commitment to complete the construction and a guarantee from contractors and mutual aid associations for the sale contract (Suwon Hwaseo Prugio Briciel, etc.) proceed by the Company.

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

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

As of September 30, 2023, in relation to the Daejeon Station Centum Vista sales project, the Company has agreed with the constructor to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of ₩ 6,074 million loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.

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

During the nine-month period ended September 30, 2023, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococ Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds and other management-related business support.

As of September 30, 2023, the Company and KT&G USA Corporation received a notification from the US Department of Justice ("DOJ") to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of September 30, 2023.

The Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of September 30, 2023, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Company's business in Russia and its financial position therein cannot be reasonably estimated as of September 30, 2023.

**24. 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 revenue of EUR 750 million or more per their separate financial statements. 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 September 30, 2023. As the global minimum tax in Korea has not been substantially enacted for financial reporting purposes, there is no related tax effect recognized by the Company in its separate financial statements as of September 30, 2023.

**25. Cash Flows**

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

<i>(in millions of Korean won)</i>	<b>September 30, 2023</b>	<b>September 30, 2022</b>
Profit for the nine-month period ended September 30	716,000	1,014,483
Adjustments:		
Employee welfare	4,774	3,135
Retirement benefits	18,382	23,621
Loss on valuation or obsolescence of inventories	4,947	651
Depreciation	103,919	100,645
Amortization	15,286	9,346
Impairment loss (reversal of impairment loss) on trade and other receivables	(5,663)	24,541
Loss on foreign currency translation	22,114	2,624
Loss on valuation of derivatives	22,374	71,460
Loss on disposal of property, plant and equipment	1,753	801
Loss on impairment of property, plant and equipment	7,082	511
Loss on disposal of intangible assets	9	17
Loss on impairment of intangible assets	405	101
Loss on disposal of investment properties	59	-
Loss on disposal of assets held for sale	-	1,218
Loss on impairment of investments in subsidiaries	4,656	3,292
Other expenses, etc.	1,158	292
Finance cost	16,375	32,901
Share-based payment expenses	119	-
Income tax expense	260,581	376,684
Gain on foreign currency translation	(123,846)	(410,649)
Gain on valuation of derivatives	(5,988)	-
Gain on disposal of property, plant and equipment	(1,415)	(4,688)
Gain on disposal of intangible assets	(3)	-
Gain on disposal of investment properties	(6,732)	-
Gain on disposal of assets held-for-sale	-	(32,037)
Gain on disposal of investments in associates and joint ventures	-	(19,962)
Other income, etc.	(6,539)	(1,865)
Finance income	(135,966)	(105,360)
Changes in working capital:		
Increase in trade and other receivables	(231,114)	(415,752)
Decrease (increase) in derivatives	13,587	(43,974)
Decrease (increase) in inventories	(9,775)	25,431
Decrease (increase) in accrued tobacco excise and other taxes	(92,898)	99,746
Increase in advance payments	(12,413)	(8,952)
Decrease (increase) in prepaid expenses	(7,392)	4,670
Decrease in net defined benefit assets	2,647	2,562
Increase in trade and other payables	226,017	77,764
Increase in advance receipts	9,147	2,480
Increase (decrease) in tobacco excise and other taxes payable	106,023	(12,465)
Decrease in provision for site restoration	(84)	(62)
Cash generated from operations	917,586	823,210

**26. Subsequent Events**

On October 5, 2023, the Company retired all treasury shares (3,470,000 shares, ₩ 302,728 million) acquired from August 4, 2023 to September 22, 2023 for the purpose of retirement of shares.

According to the resolution of the Board of Directors made on November 9, 2023, the Company extended the maturity of the loan of USD 100,816 thousand to PT Trisakti Purwosari Makmur by one year for the construction of a new plant and infrastructure in Indonesia, and plans to provide funds in the amount of USD 169,440 thousand to PT Trisakti Purwosari Makmur in December 2023.

According to the resolution of the Board of Directors made on November 9, 2023, the Company plans to make an additional investment of USD 105,898 thousand in three times in February, May, and October 2024 to KT&G Kazakhstan LLP for the construction of a new plant and infrastructure in Kazakhstan.