



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

Interim Consolidated 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 consolidated financial statements** (English Translation of a Report Originally Issued in Korean)

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

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of September 30, 2023, and the related interim consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2023 and 2022, interim consolidated statements of changes in equity and interim consolidated 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 consolidated financial statements**

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

### **Auditor's responsibility**

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

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

### **Conclusion**

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

**Other matter**

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

November 13, 2023

*Ernst & Young Han Young*

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 consolidated financial statements and may result in modifications to this review report.

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

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

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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	22,23	1,173,638,015,106	1,401,018,438,794
Current other financial assets	22,23	264,711,599,871	201,074,895,450
Current financial assets measured at fair value through profit or loss	22	201,827,465,657	393,106,179,920
Trade and other receivables	5,16,21,22,23	1,913,201,392,180	1,528,511,308,801
Derivative assets	22,23	1,017,966,761	23,069,310,564
Inventories	6	2,520,601,616,939	2,575,842,017,001
Refund assets and others		1,084,656,840	983,881,594
Accrued tobacco excise and other taxes		445,551,697,233	276,181,191,834
Advance payments	23	74,239,496,316	51,089,949,308
Prepaid expenses		65,430,930,532	58,707,728,734
<b>Total current assets</b>		<b>6,661,304,837,435</b>	<b>6,509,584,902,000</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	54,460,191,658	42,826,342,939
Long-term deposits in MSA Escrow Fund	22,23	1,541,284,106,435	1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	22,23	351,458,914,922	320,429,121,314
Long-term trade and other receivables	5,22	178,891,478,208	108,476,071,963
Long-term financial assets measured at fair value through other comprehensive income or loss	22	230,721,118,426	206,493,540,726
Investments in associates and joint ventures	4,7,21,23	469,638,567,126	274,534,172,041
Property, plant and equipment	4,8,23	1,935,309,023,693	1,837,040,709,535
Intangible assets	4,9	174,319,770,704	167,851,437,108
Investment properties	4,10,23	1,020,793,581,161	1,071,463,087,867
Right-of-use assets	4,11	49,676,487,645	40,243,871,545
Long-term advance payments	23	147,768,067,632	113,065,628,589
Long-term prepaid expenses		12,820,788,332	7,130,744,259
Deferred tax assets	20	39,226,173,987	55,757,878,436
Net defined benefit assets	14,21	61,706,868,288	109,687,902,060
<b>Total non-current assets</b>		<b>6,268,075,138,217</b>	<b>5,792,130,881,797</b>
<b>Total assets</b>		<b>12,929,379,975,652</b>	<b>12,301,715,783,797</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	78,184,008,815	72,629,448,270
Current portion of long-term borrowings	13,22,23	18,944,021,199	4,125,980,000
Trade and other payables	21,22,23	1,813,061,130,379	1,505,796,123,059
Current lease liabilities	22	19,306,441,037	16,558,862,968
Derivative liabilities	22,23	7,921,325,933	-
Advance receipts	16	33,261,737,548	21,492,888,395
Current refund liabilities and provisions	15,23	33,987,199,455	21,562,642,092
Current tax liabilities	20	130,902,956,864	218,730,043,068
Tobacco excise and other taxes payables		854,856,245,555	666,419,286,276
<b>Total current liabilities</b>		<b>2,990,425,066,785</b>	<b>2,527,315,274,128</b>
<b>Non-current liabilities</b>			
Long-term borrowings and bond	13,22,23	385,495,489,929	78,807,990,962
Long-term trade and other payables	22,23	55,263,384,317	52,895,766,396
Long-term lease liabilities	22	27,771,102,717	21,049,801,579
Long-term advance receipts	16	4,336,515,373	2,567,527,585
Net defined benefit liabilities	14,21	34,286,206,115	32,477,623,143
Long-term refund liabilities and provisions	15,23	4,132,089,645	18,953,749,083
Deferred tax liabilities	20	215,879,662,041	181,299,216,741
Non-controlling interests liabilities	22	17,868,157,395	27,768,802,788
<b>Total non-current liabilities</b>		<b>745,032,607,532</b>	<b>415,820,478,277</b>
<b>Total liabilities</b>		<b>3,735,457,674,317</b>	<b>2,943,135,752,405</b>

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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	\
Other capital surplus		4,906,397,736	4,497,785,722
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		7,233,715,117,367	6,812,285,552,594
Retained earnings		1,893,697,895,614	2,251,940,435,833
<b>Equity attributable to owners of the Parent Company</b>		<u>9,076,511,879,794</u>	<u>9,315,644,398,676</u>
<b>Non-controlling interest</b>		117,410,421,541	42,935,632,716
<b>Total equity</b>		<u>9,193,922,301,335</u>	<u>9,358,580,031,392</u>
<b>Total liabilities and equity</b>	\	<u>12,929,379,975,652</u>	\
		<u>12,301,715,783,797</u>	

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Comprehensive Income**  
For the three-month and 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>Continuing operations</b>				
Sales	4,16 \ 1,689,509,561,552 \	4,421,174,665,626 \	1,624,596,549,580 \	4,444,663,137,560
Cost of sales	16 \ (862,391,923,179) \	(2,234,869,509,117) \	(791,667,237,996) \	(2,156,578,856,700)
<b>Gross profit</b>		827,117,638,373	832,929,311,584	2,288,084,280,860
Selling, general and administrative expenses	17,21 \ (420,400,510,408) \	(1,216,935,386,972) \	(427,317,863,980) \	(1,221,836,699,335)
<b>Operating profit</b>	4	406,717,127,965	405,611,447,604	1,066,247,581,525
Other income	18,22	84,744,554,211	268,250,417,969	533,396,084,983
Other expenses	18,21,22	(41,285,877,056)	(128,836,971,116)	(133,912,736,616)
Finance income	19,21,22	23,882,809,600	31,635,685,427	85,432,098,313
Finance costs	19,22	(19,322,767,769)	(48,155,728,373)	(56,598,247,240)
Share of net profit of associates and joint ventures	7	10,689,580,398	8,075,129,603	15,665,533,298
Loss arising from net monetary assets		(5,913,975,516)	(8,178,322,691)	-
<b>Profit before income tax</b>		459,511,451,833	1,127,816,232,119	1,525,022,336,450
Income tax expense	20	(124,644,954,112)	(312,847,720,268)	(452,825,407,114)
<b>Profit from continuing operations</b>		334,866,497,721	814,968,511,851	1,072,196,929,336
<b>Discontinued operation</b>				
Loss from discontinued operation	25	(1,579,499,973)	(5,527,312,171)	(1,022,485,845)
<b>Profit for the period</b>	\	333,286,997,748 \	809,441,199,680 \	463,140,138,419 \
<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	\	1,192,492,598 \	(14,766,925,881) \	(307,880,165) \
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	22	11,111,758,696	18,326,261,151	5,929,180,799
Capital changes in equity method	7	4,515,634	12,153,949	159,534,182
Items that will be reclassified to profit or loss in subsequent periods				
Exchange differences on translating foreign operations	7	(319,337,754)	(4,450,286,120)	19,584,327,812
Capital changes in equity method		43,952,428	(61,040,889)	(154,739,239)
		12,033,381,602	(939,837,790)	25,210,423,389
<b>Total comprehensive income for the period</b>	\	345,320,379,350 \	808,501,361,890 \	488,350,561,808 \
<b>Profit for the period is attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations	\	315,422,784,533 \	790,670,756,172 \	465,150,993,651 \
Loss from discontinued operations	25	(1,579,499,973)	(5,527,312,171)	(1,022,485,845)
Profit attributable to owners of the Parent Company		313,843,284,560	785,143,444,001	464,128,507,806
Non-controlling interests				
Profit (loss) from continuing operations		19,443,713,188	24,297,755,679	(988,369,387)
Loss from discontinued operations	25	-	-	-
Profit (loss) attributable to non-controlling interests		19,443,713,188	24,297,755,679	(988,369,387)
<b>Total</b>	\	333,286,997,748 \	809,441,199,680 \	463,140,138,419 \
<b>Total comprehensive income(loss) for the period attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations	\	328,451,237,679 \	791,957,218,463 \	493,913,705,699 \
Loss from discontinued operations	25	(2,588,863,823)	(7,834,671,309)	(4,568,504,304)
Total comprehensive income attributable to owners of the Parent Company		325,862,373,856	784,122,547,154	489,345,201,395
Non-controlling interests				
Profit (loss) from continuing operations		19,458,005,494	24,378,814,736	(994,639,587)
Loss from discontinued operations	25	-	-	-
Total comprehensive income (loss) attributable to non-controlling interests		19,458,005,494	24,378,814,736	(994,639,587)
<b>Total</b>	\	345,320,379,350 \	808,501,361,890 \	488,350,561,808 \
<b>Earnings(losses) per share</b>				
Basic and diluted earnings(losses) per share				
From continuing operations	\	2,722 \	6,824 \	3,877 \
From discontinued operations		(14)	(48)	(9)
	\	2,708 \	6,776 \	3,868 \

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



# KT&G Corporation and Its Subsidiaries

## Interim Consolidated Statements of Changes in Equity

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



	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
<b>Balance as of January 1, 2022</b>	W 954,959,485,000	W 4,497,785,722	W (879,981,829,569)	W 528,884,053,906	W 6,490,161,242,572	W 2,060,255,463,296	W 9,159,786,200,927	W 50,075,952,125	W 9,208,862,153,652
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	1,067,794,919,483	1,067,794,919,483	(2,372,906,463)	1,065,361,113,020
Profit (loss) for the period	-	-	-	-	-	-	-	-	-
<b>Other comprehensive income (loss) for the period:</b>	-	-	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(776,732,334)	(776,732,334)	(13,667,282)	(790,398,616)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	9,411,139,411	-	9,411,139,411	-	9,411,139,411
Transfer from gain (loss) on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,330,221,000	(8,330,221,000)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	80,171,943,019	-	80,171,943,019	(3,837,021)	80,168,105,998
Capital changes in equity method	-	-	-	-	(146,842,790)	-	(146,842,790)	-	(146,842,790)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	97,766,460,640	(9,106,953,334)	88,659,507,306	(17,504,303)	88,642,003,003
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	97,766,460,640	1,058,627,066,149	1,156,393,526,789	(2,380,410,766)	1,154,003,116,023
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	-	-	-
<b>Balance as of September 30, 2022</b>	W 954,959,485,000	W 4,497,785,722	W (879,981,829,569)	W 528,884,053,906	W 6,889,140,623,691	W 2,241,765,975,566	W 9,739,276,097,316	W 47,685,541,369	W 9,786,961,638,675
<b>Balance as of January 1, 2023</b>	W 954,959,485,000	W 4,497,785,722	W (1,236,932,914,379)	W 528,884,053,906	W 6,812,285,552,594	W 2,251,940,435,833	W 9,315,644,398,676	W 42,935,632,716	W 9,358,580,031,392
<b>Total comprehensive income for the period</b>	-	-	-	-	-	785,143,444,001	785,143,444,001	24,297,755,679	809,441,199,680
<b>Other comprehensive income (loss) for the period:</b>	-	-	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(14,848,888,223)	(14,848,888,223)	81,972,342	(14,766,925,881)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	18,326,261,151	-	18,326,261,151	-	18,326,261,151
Exchange differences on translating foreign operations	-	-	-	-	(4,449,372,835)	-	(4,449,372,835)	(913,285)	(4,450,286,120)
Capital changes in equity method	-	-	-	-	(48,886,940)	-	(48,886,940)	-	(48,886,940)
<b>Total comprehensive income for the period</b>	-	-	-	-	13,828,001,376	(14,848,888,223)	(1,020,896,847)	81,059,057	(939,837,790)
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	13,828,001,376	770,294,545,778	784,122,547,154	24,378,814,736	808,501,361,890
Dividends	-	-	-	-	-	(720,935,522,600)	(720,935,522,600)	-	(720,935,522,600)
Transfer to other reserve	-	-	-	-	407,601,563,397	(407,601,563,397)	-	-	-
Acquisition of treasury shares	-	-	(302,728,155,450)	-	-	-	(302,728,155,450)	-	(302,728,155,450)
Change in non-controlling interest, etc.	-	-	-	-	-	-	-	50,095,974,089	50,095,974,089
Share options	-	408,612,014	-	-	-	-	408,612,014	-	408,612,014
<b>Balance as of September 30, 2023</b>	W 954,959,485,000	W 4,906,397,736	W (1,539,661,069,829)	W 528,884,053,906	W 7,233,715,117,367	W 1,893,697,895,614	W 9,076,511,879,794	W 117,410,421,541	W 9,193,922,301,335

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

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



<i>(in Korean won)</i>	<u>Note</u>	<u>September 30, 2023</u>	<u>September 30, 2022</u>	
<b>Net cash flows provided by operating activities</b>				
Cash generated from operations	24	896,114,039,721	748,547,531,639	
Income taxes paid		(373,034,652,469)	(390,716,017,059)	
<b>Net cash flows provided by (used in) investing activities</b>		(420,201,162,704)	430,928,994,570	
Interest received		37,762,801,370	18,051,224,599	
Dividends received		20,586,847,451	25,452,094,305	
Decrease in other financial assets		113,869,017,133	734,255,442,703	
Decrease in current financial assets measured at fair value through profit or loss		397,910,173,229	510,885,653,852	
Decrease in long-term financial assets measured at fair value through profit or loss		4,846,098,989	1,749,303,339	
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000	
Disposal of property, plant and equipment		6,481,968,026	6,424,463,231	
Disposal of intangible assets		1,030,965,655	300,000,000	
Disposal of investment properties		8,560,349,332	-	
Disposal of assets held for sale		187,516,937	69,612,576,176	
Disposal of investments in associates and joint ventures		-	42,881,601,172	
Receipt of government grant		332,342,727	-	
Collection of loans		18,199,055,014	16,196,267,796	
Collection of guarantee deposits		1,257,649,729	464,996,802	
Increase in other financial assets		(191,746,742,276)	(631,490,722,381)	
Increase in current financial assets measured at fair value through profit or loss		(181,394,459,822)	(470,000,000)	
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)	(95,160,173,619)	
Acquisition of property, plant and equipment		(292,493,377,520)	(132,944,876,360)	
Acquisition of intangible assets		(31,243,021,734)	(26,885,598,472)	
Acquisition of investment properties		(16,884,275,931)	(15,024,165,412)	
Acquisition of right-of-use assets		(1,052,964,489)	(1,853,342,822)	
Acquisition of investments in associates and joint ventures		(188,978,000,000)	(29,488,895,600)	
Increase in loans		(75,601,762,488)	(8,922,562,691)	
Increase in guarantee deposits		(4,071,789,989)	(2,064,411,706)	
Net cash outflow due to changes in scope of consolidation		(13,965,407,394)	-	
<b>Net cash flows used in financing activities</b>		(725,469,674,880)	(566,050,075,657)	
Dividends paid		(720,935,522,600)	(575,903,630,400)	
Interest paid		(13,240,380,874)	(3,085,318,805)	
Repayment of lease liabilities		(18,056,311,105)	(14,761,647,129)	
Acquisition of treasury shares		(302,728,155,450)	-	
Repayment of borrowings		(1,315,129,202,531)	(79,424,962,630)	
Proceeds from borrowings		1,345,546,529,280	107,125,483,307	
Proceeds from issuance of bond		299,073,368,400	-	
<b>Net increase (decrease) in cash and cash equivalents</b>		(249,556,797,863)	613,426,450,552	
<b>Cash and cash equivalents at the beginning of the period</b>		1,401,018,438,794	946,570,845,404	
Effect of exchange rate fluctuation on cash and cash equivalents		22,176,374,175	29,838,891,710	
<b>Cash and cash equivalents at the end of the period</b>	₩	<u>1,173,638,015,106</u>	₩	<u>1,589,836,187,666</u>

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

## 1. Reporting Entity

### 1.1 Overview of the Parent Company

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

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

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

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

# KT&G Corporation and Its Subsidiaries

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



## 1.2 Consolidated Subsidiaries

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

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

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

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

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



### 1.2 Consolidated Subsidiaries (Continued)

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

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

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

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

## 2. Material Accounting Policies

### (1) Basis of Preparation

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

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

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

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

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

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

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

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

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

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

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

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

**(3) Material Accounting Policies**

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

(a) Income Tax Expense

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



### 3. Material Accounting Estimates and Assumptions

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

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

#### 4. Operating Segments

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

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

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

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

(in millions of Korean won)

	September 30, 2023						Consolidated
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	
Total segment sales	\ 2,909,698	\ 1,163,530	\ 471,392	\ 227,479	\ 4,772,099	\ (350,924)	\ 4,421,175
Intersegment sales	(191,349)	(105,781)	(48,947)	(4,847)	(350,924)	350,924	-
External sales	2,718,349	1,057,749	422,445	222,632	4,421,175	-	4,421,175
Operating profit <sup>2</sup>	742,561	88,009	103,002	1,503	935,075	28,939	964,014
Depreciation and amortization	119,671	36,884	22,442	8,040	187,037	(7,633)	179,404

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

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

(in millions of Korean won)

	September 30, 2022						Consolidated
	Tobacco <sup>1</sup>	Ginseng	Real estate <sup>3</sup>	Others <sup>3</sup>	Segment total	Adjustments	
Total segment sales	\ 2,957,628	\ 1,232,742	\ 479,108	\ 217,766	\ 4,887,244	\ (442,581)	\ 4,444,663
Intersegment sales	(244,274)	(119,588)	(63,436)	(15,283)	(442,581)	442,581	-
External sales	2,713,354	1,113,154	415,672	202,483	4,444,663	-	4,444,663
Operating profit (loss) <sup>2</sup>	817,411	116,290	174,404	(5,528)	1,102,577	(44,652)	1,057,925
Depreciation and amortization	123,516	37,671	3,076	7,179	171,442	(6,504)	164,938

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

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

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



# KT&G Corporation and Its Subsidiaries

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



## 4. Operating Segments (Continued)

(c) The Group recognizes revenue by transferring goods and services over a period of time or at a point in time in the major business lines. The categories of major business lines are consistent with the revenue disclosure information for each reporting segment in accordance with KIFRS 1108.

(in millions of Korean won)

		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:					
Tobacco	Wholesale and retail	961,217	2,691,616	898,138	2,584,150
	Direct sales	11,452	26,733	45,818	129,204
Ginseng	Wholesale and retail	219,351	585,167	246,877	575,978
	Direct sales	193,492	472,582	202,664	537,176
Real estate	Sales and rental	12,760	12,760	-	4,195
Others <sup>1</sup>	Wholesale and retail	78,531	221,014	70,444	200,808
	Direct sales	564	1,618	387	1,675
Subtotal		1,477,367	4,011,490	1,464,328	4,033,186
Revenue recognized over time:					
Real estate <sup>1</sup>	Sales and rental and others	212,143	409,685	160,269	411,477
Total		1,689,510	4,421,175	1,624,597	4,444,663

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

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

(in millions of Korean won)

		September 30, 2023						
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:								
Segment assets	\	7,106,133	2,290,865	1,431,082	247,711	11,075,791	(2,754,276)	8,321,515
Investments in associates and joint ventures		-	-	455,069	14,570	469,639	-	469,639
Subtotal	\	7,106,133	2,290,865	1,886,151	262,281	11,545,430	(2,754,276)	8,791,154
Common assets								4,138,226
Total assets								12,929,380
Acquisition of non-current assets	\	267,513	62,221	2,386	8,658	340,778	(27,715)	313,063
Liabilities:								
Segment liabilities	\	2,914,110	270,700	101,927	101,347	3,388,084	(574,976)	2,813,108
Common liabilities								922,350
Total liabilities								3,735,458

(in millions of Korean won)

		December 31, 2022						
		Tobacco	Ginseng	Real estate <sup>1</sup>	Others <sup>1</sup>	Segment total	Adjustments	Consolidated
Assets:								
Segment assets	\	6,213,616	2,233,505	1,465,572	229,346	10,142,039	(2,373,907)	7,768,132
Investments in associates and joint ventures		-	-	265,084	9,450	274,534	-	274,534
Subtotal	\	6,213,616	2,233,505	1,730,656	238,796	10,416,573	(2,373,907)	8,042,666
Common assets								4,259,050
Total assets								12,301,716
Acquisition of non-current assets	\	299,725	32,984	9,670	8,718	351,097	44,156	395,253
Liabilities:								
Segment liabilities	\	2,505,124	247,442	63,318	94,963	2,910,847	(583,870)	2,326,977
Common liabilities								616,159
Total liabilities								2,943,136

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

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
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## 4. Operating Segments (Continued)

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

(e) Regional information by customer location for the nine-month periods ended September 30, 2023 and 2022 is as follows:

(in millions of Korean won)

	September 30, 2023			September 30, 2022		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	3,127,934	1,293,241	4,421,175	3,051,567	1,393,096	4,444,663
Non-current assets <sup>1</sup>	3,026,764	153,335	3,180,099	2,927,624	131,449	3,059,073

<sup>1</sup> Financial assets, deferred tax assets, and net defined benefit assets were excluded.

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

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

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
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## 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	1,768,321	-	1,366,523	-
Loans	22,871	93,387	19,180	52,887
Other receivables	48,533	1,200	94,904	1,087
Guarantee deposits	64,232	84,205	37,549	54,466
Accrued income	9,244	99	10,355	36
Total	1,913,201	178,891	1,528,511	108,476

(b) Details of allowances for doubtful accounts for trade and other receivables (as a gross amount, before deduction of allowances for doubtful accounts) as of 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	1,980,802	179,118	1,608,031	108,556
Allowances:				
Trade receivables	(66,810)	-	(78,666)	-
Other receivables	(791)	(227)	(854)	(80)
Total allowances	(67,601)	(227)	(79,520)	(80)
Net trade and other receivables	1,913,201	178,891	1,528,511	108,476

(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	79,600	79,007
Impairment loss (reversal of impairment loss) <sup>1</sup>	(11,236)	14,160
Write off	(322)	(871)
Net exchange difference and others	(214)	2,906
Ending balance	67,828	95,202

<sup>1</sup>₩ 737 million of impairment loss classified as discontinued operation are included for the nine-month period ended September 30, 2022.

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 consolidated statements of comprehensive income.

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
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## 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	80,978	(4,266)	76,712	42,708	(3,037)	39,671
Finished goods	384,081	(40,710)	343,371	460,150	(35,719)	424,431
Half-finished goods and work in progress	902,747	(2,691)	900,056	1,023,783	(3,596)	1,020,187
Raw materials	885,739	(5,804)	879,935	858,261	(8,763)	849,498
Supplies	67,396	-	67,396	54,325	-	54,325
By-products	6,052	-	6,052	5,160	-	5,160
Buildings under construction	104,915	-	104,915	61,597	-	61,597
Completed buildings	2,203	-	2,203	1,490	-	1,490
Sites for construction of real estate	94,568	-	94,568	66,622	-	66,622
Goods in transit	45,403	(9)	45,394	52,988	(127)	52,861
Total	2,574,082	(53,480)	2,520,602	2,627,084	(51,242)	2,575,842

(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	1,670	170	(2,497)	(5,701)
Loss on obsolescence of inventories	568	6,660	1,719	5,231
Other expense:				
Loss on obsolescence of inventories	15	282	124	136
Total	2,253	7,112	(654)	(334)



## 7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures 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	274,534	242,992
Acquisition	188,978	29,489
Disposal	-	(42,732)
Shares of net profit or loss <sup>1</sup>	8,075	30,458
Dividends	(1,987)	(3,942)
Reclassification <sup>2</sup>	105	17,014
Changes in Equity	(66)	(203)
Ending balance	<u>469,639</u>	<u>273,076</u>

<sup>1</sup>Profits or losses arising from the additional acquisition of investments in associates and joint ventures are included.

<sup>2</sup>For the nine-month period ended September 30, 2022, KOCREF 41 REIT was reclassified into investment in associates from financial assets measured at fair value through other comprehensive income, and KORAMCO Amsa PFV Co., Ltd. was reclassified into assets held for sale from investment in associates (see Notes 12, 21).

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
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## 8. Property, Plant and Equipment

Changes in property, plant and equipment 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	1,837,041	1,741,042
Acquisition <sup>1</sup>	240,759	163,599
Disposal/Impairment	(11,344)	(2,986)
Depreciation	(119,534)	(119,892)
Reclassification and others <sup>2</sup>	(11,613)	(5,421)
Ending balance	<u>1,935,309</u>	<u>1,776,342</u>

<sup>1</sup> During the nine-month period ended September 30, 2023, the Group has capitalized \ 2,026 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 3.33%~5.27%. During the nine-month period ended September 30, 2022, the Group had capitalized \ 1,686 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 3.06%~3.34%.

<sup>2</sup> Includes \ 13,360 million of transfers to investment properties and \ 32 million of transfers to inventories and \ 71 million of transfers to intangible assets for the nine-month period ended September 30, 2023, and \ 29,664 million of transfers to investment properties, \ 714 million of transfers to inventories and \ 1,522 million of transfers to intangible assets for the nine-month period ended September 30, 2022.

## 9. Intangible Assets

Changes in intangible 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	167,851	145,719
Acquisition	29,014	27,238
Disposal/Impairment	(1,717)	(779)
Amortization	(22,005)	(15,455)
Reclassification and others <sup>1</sup>	1,177	3,674
Ending balance	<u>174,320</u>	<u>160,397</u>

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

**10. 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	1,071,463	1,150,980
Acquisition <sup>1</sup>	14,874	16,198
Disposal/Impairment	(1,841)	(143)
Depreciation	(17,656)	(15,923)
Reclassification and others <sup>2</sup>	(46,046)	(62,695)
Ending balance	<u>1,020,794</u>	<u>1,088,417</u>

<sup>1</sup> During the nine-month period ended September 30, 2023, the Group 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 ₩ 13,360 million of transfers from property, plant and equipment and ₩ 58,069 million of transfers to inventories for the nine-month period ended September 30, 2023, and ₩ 29,664 million of transfers from property, plant and equipment, ₩ 69,803 million of transfers to inventories and ₩ 22,647 million of transfers to assets held for sale for the nine-month period ended September 30, 2022.

**11. 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	40,244	36,445
Acquisition	30,468	15,236
Disposal/Changes	(853)	(2,007)
Depreciation	(20,210)	(13,668)
Reclassification and others	27	(2,089)
Ending balance	<u>49,676</u>	<u>33,917</u>

## 12. 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>	September 30, 2023	September 30, 2022
Beginning balance	\ - \	20,124
Disposal	-	(43,756)
Reclassification and others <sup>1</sup>	-	23,632
Ending balance	\ - \	-

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

## 13. 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>	Lender	Annual interest rate (%)	September 30, 2023	December 31, 2022	
Borrowings	Hana Bank	FTP(1 year)+0.994-1.2 \	10,500 \	7,000	
	Bank Debenture (6 months)+1.62		-	3,000	
	CD(3 months)+1.75		7,955	7,805	
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	5,954	5,686	
	KB Kookmin Bank	CD(3 months)+1.75	39,775	39,025	
	Shinhan Bank	Bank Debenture (6 months)+1.13	-	10,000	-
		Bank Debenture (1 year)+1.05	10,000	-	
	NH Nonghyup Bank	3.87	-	19	
	Korea Development Bank	Industrial Financial Debenture(1 year)+0.84	4,000	-	
		Subtotal		78,184	72,535
Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank	-	-	75	
	Hana Card	-	-	19	
	Subtotal		-	94	
	Total		\ 78,184 \	72,629	

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



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## 13. Borrowings and Bond (Continued)

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

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)	September 30, 2023	December 31, 2022
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2024.06.10~ 2027.06.20	-	66,591	51,308
Borrowings	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67	10,000	-
		2023.09.11	MOR(6 months) +1.03	-	825
	Korea Development Bank	2025.06.23	MOR(6 months) +1.58	-	801
		2025.06.23	Industrial Financial Debenture (1 year)+0.66	8,750	10,000
		2024.12.01	Industrial Financial Debenture (6 months)+1.44	20,000	20,000
Hana Bank	2026.12.31	5.57	10	-	
	Total			105,351	82,934
Consolidated statements of financial position:					
Current				18,944	4,126
Non-current				86,407	78,808
	Total			105,351	82,934

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

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

<i>(in millions of Korean won)</i>	Issuance date	Maturity	Annual interest rate (%)	September 30, 2023	December 31, 2022
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	-
Consolidated statements of financial position:					
Current				-	-
Non-current				299,088	-
	Total			299,088	-

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

**14. Employee Benefits**

(a) Details of profit or loss recognized related to employee benefits for the three-month and 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	\ 11,521	\ 33,435	\ 12,752	\ 38,399
Net interest on net defined benefit liabilities/assets	(607)	(2,743)	284	1,079
Past service costs and gain and loss on settlement	-	(808)	211	(1,263)
Subtotal	10,914	29,884	13,247	38,215
Defined contribution plan:				
Contributions recognized as expense	1,732	5,207	1,743	5,149
Other long-term employee benefits:				
Current service cost, etc.	1,546	5,416	1,560	4,458
Termination benefits:				
Voluntary retirements, etc.	40	533	-	2,214
Total	\ 14,232	\ 41,040	\ 16,550	\ 50,036

(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	\ 550,658	\ 520,980
Fair value of plan assets	(578,079)	(598,190)
Total	\ (27,421)	\ (77,210)

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## 15. 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	14,331	3,466	14,141	4,168
Provision for site restoration	1,525	635	1,764	537
Provision for financial guarantee	48	29	-	134
Provision for greenhouse gases	69	-	194	-
Provision for others	15,641	2	1,292	14,115
Total	33,987	4,132	21,563	18,954

(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	18,309	3,856	(4,368)	17,797
Provision for site restoration	2,301	169	(310)	2,160
Provision for financial guarantee	134	29	(86)	77
Provision for greenhouse gases	194	-	(125)	69
Provision for others	15,407	859	(623)	15,643
Total	40,517	6,373	(8,771)	38,119

(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	17,707	4,106	(2,846)	18,967
Provision for site restoration	5,101	4,291	(7,091)	2,301
Provision for financial guarantee	271	-	(107)	164
Provision for greenhouse gases	269	-	(76)	193
Provision for others	3,089	346	(1,912)	1,523
Total	31,352	8,743	(12,570)	27,525

**16. 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	Progress (%)	September 30, 2023				
				Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative) <sup>2</sup>	Revenue (period)	Cost (cumulative) <sup>4</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	803,056	750,352	750,328	123,637	348,542
ePyeonhansesang 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
Gwacheon Sangsang Xi tower B	January 2021	May 2023	100.00	266,691	239,568	232,962	26,633	138,497
Goyang Hyangdong district knowledge industry center <sup>3</sup>	March 2021	July 2023	100.00	541,142	540,077	518,795	130,200	355,930
Total				2,111,843	1,890,674	1,557,248	335,108	883,768

<sup>1</sup>Includes the expected sales value for commercial buildings, officetels, and knowledge industry center 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>Sales revenue for the nine-month period ended September 30, 2023 excludes sales revenue of DNC Deogeun Co., Ltd. which was incurred before the Group acquiring control over the entity.

<sup>4</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	Progress (%)	September 30, 2022				
				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
Gwacheon Sangsang Xi tower B	January 2021	May 2023	69.09	239,568	239,568	162,986	87,733	91,785
Total				1,030,974	989,846	666,597	346,469	318,309

<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.

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## 16. 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
ePyeonhangesang 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
Gwacheon Sangsang Xi tower B	232,962	227,838	5,124	-
Goyang Hyangdong district knowledge industry center	518,795	477,636	41,159	-
Total	1,557,248	1,237,381	332,822	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
ePyeonhangesang Daejeon station Centum Vista	525	1,770	-	1,245
Gwacheon Sangsang Xi tower B	206,329	115,868	90,461	-
Total	833,545	493,416	342,922	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.

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## 17. 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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Salaries	127,876	375,957	118,852	352,775
Retirement and termination benefits	8,293	22,986	9,909	30,774
Employee welfare	21,325	58,716	18,567	55,395
Travel expenses	6,145	17,426	6,230	13,684
Communication cost	1,220	4,436	1,411	4,512
Utilities	4,723	11,897	3,743	9,829
Taxes and dues	2,111	31,019	1,719	27,852
Supplies	841	4,781	1,476	4,161
Rent	4,878	13,549	5,866	14,614
Depreciation	11,518	41,036	9,730	40,090
Amortization	7,718	21,577	6,701	15,276
Repairs and maintenance	2,968	5,983	2,243	4,831
Vehicles	1,793	5,237	2,061	5,760
Insurance	1,389	3,450	853	2,061
Commissions	96,338	308,894	110,410	320,897
Freight and custody	17,467	50,508	19,934	53,068
Conferences	1,138	3,733	1,157	3,043
Advertising	81,690	210,899	77,084	217,647
Education and training	1,967	6,121	1,784	3,961
Prizes and rewards	399	1,222	315	1,087
Cooperation	292	803	345	1,218
Research and development	12,418	33,374	13,631	33,178
Impairment loss (reversal of impairment loss) on trade receivables	7,553	(11,312)	14,172	14,446
Total	422,060	1,222,292	428,193	1,230,159

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩ 5,356 million and ₩ 8,323 million for the nine-month periods ended September 30, 2023 and 2022, respectively.

## 18. 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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Gain on foreign currency transaction	24,191	49,872	30,379	55,560
Gain on foreign currency translation	58,689	157,592	228,872	426,997
Gain on valuation of derivatives	1,424	5,988	-	-
Reversal of impairment loss on other receivables	-	-	-	285
Gain on disposal of property, plant and equipment	30	1,657	3,991	4,039
Gain on disposal of intangible assets	3	3	-	-
Gain on disposal of investment properties	91	6,823	-	-
Gain on disposal of investments in associates and joint ventures	-	-	168	168
Gain on disposal of assets held for sale	-	-	-	34,088
Gain on lease contract adjustments	59	326	-	118
Gain on disposal of right-of-use assets	2	2	-	-
Miscellaneous income	256	8,410	5,044	15,544
<b>Total</b>	<b>84,745</b>	<b>230,673</b>	<b>268,454</b>	<b>536,799</b>

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩ 266 million and ₩ 3,402 million for the nine-month periods ended September 30, 2023 and 2022, respectively.

(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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Loss on foreign currency transaction	9,727	23,087	7,437	19,342
Loss on foreign currency translation	15,984	57,423	8,962	30,064
Loss on disposal of investments in associates and joint ventures	-	-	19	19
Loss on disposal of investments in subsidiaries	-	-	43	43
Loss on valuation of derivatives	8,958	22,374	42,499	71,460
Loss on impairment of other receivables	138	76	134	-
Loss on disposal of property, plant and equipment	288	3,003	722	1,177
Loss on impairment of property, plant and equipment	1,313	7,244	-	511
Loss on disposal of intangible assets	243	284	1	378
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
Donations	1,607	3,311	2,456	4,988
Loss on lease contract adjustments	5	19	14	8
Miscellaneous loss	2,743	12,070	1,098	6,519
<b>Total</b>	<b>41,288</b>	<b>129,355</b>	<b>63,395</b>	<b>135,828</b>

<sup>1</sup>Includes the profit or loss from discontinued operation, amounting to ₩ 518 million and ₩ 1,916 million for the nine-month periods ended September 30, 2023 and 2022, respectively.

**19. 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 <sup>2</sup>	Three-month period ended	Nine-month period ended
Finance income:				
Interest income <sup>1</sup>	\ 18,281	\ 52,465	\ 11,459	\ 22,442
Dividend income	3,737	15,878	5,440	19,884
Gain on valuation of fair value through profit or loss	1,917	36,846	14,736	43,106
Gain on disposal of financial instruments	29	29	-	-
Total finance income	\ 23,964	\ 105,218	\ 31,635	\ 85,432
Finance cost:				
Interest expense	\ 13,174	\ 40,062	\ 9,249	\ 25,160
Loss on valuation of fair value through profit or loss	5,976	7,921	81	21,138
Other financial expenses	173	173	-	10,300
Total finance cost	\ 19,323	\ 48,156	\ 9,330	\ 56,598
Net finance income	\ 4,641	\ 57,062	\ 22,305	\ 28,834

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

<sup>2</sup>Includes the profit from discontinued operation, amounting to ₩ 81 million for the nine-month period ended September 30, 2023.

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

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full fiscal year. The average effective tax rates for the nine-month periods ended September 30, 2023 and 2022, are 27.88% and 29.83%, respectively.



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## 21. Related Parties

(a) Details of the Group'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	
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.53	12.53	
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95	
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47	
	KOCREF 36 REIT	Korea	21.01	21.01	
	KOCREF 41 REIT <sup>2</sup>	Korea	26.47	26.47	
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43	
	Cheongna Medipolis PFV Co., Ltd. <sup>3</sup>	Korea	57.71	56.74	
	INNODIS CO., Ltd. <sup>1</sup>	Korea	19.64	19.64	
	SJ BIO MED Co., Ltd. <sup>1,4</sup>	Korea	14.39	14.39	
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	22.73	
	Mirae Asset KT&G Investment Fund I <sup>5</sup>	Korea	50.00	50.00	
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	-	
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>6</sup>	Germany	51.35	51.35
		Starfield Suwon Inc.	Korea	50.00	50.00

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

<sup>2</sup>The Group has reclassified the ownership as investment in associates, as the Group obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2022.

<sup>3</sup>The Group has classified the ownership as investment in associates, as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>4</sup>As of September 30, 2023, reporting of business closure and liquidation procedures are in progress.

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

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

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## 21. Related Parties (Continued)

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

(in millions of Korean won)

Type	Name of entity	September 30, 2023				September 30, 2022			
		Sales and other revenue		Purchase and other expenses		Sales and other revenue		Purchase and other expenses	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
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	-	-
	INNODIS Co., Ltd.	-	-	73	196	-	-	96	626
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	-	-	-	-	-	648	-	-
	Starfield Suwon Inc.	-	-	-	-	-	-	-	68
	Total	-	1,987	73	196	1,079	3,942	96	694

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

(in millions of Korean won)

Type	Name of entity	September 30, 2023		December 31, 2022	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No.1	-	-	481	-
	INNODIS Co., Ltd.	-	-	-	35
Joint venture	Starfield Suwon Inc.	-	-	70	-
	Total	-	-	551	35

(d) 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)

Type	Name of entity	September 30, 2023		September 30, 2022	
		Equity investment	Equity recovery	Equity investment	Equity recovery
Associates	KOCREF 41 REIT	-	-	29,489	12,279
	Mirae Asset KT&G Investment Fund I	5,000	-	-	-
	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	188,978	-	29,489	68,984

<sup>1</sup>The Group excluded the entity from 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.

**21. Related Parties (Continued)**

- (e) There are no payment guarantees provided between or among the related parties.
- (f) The Group currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon's operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.
- (g) The Group has entered into a capital contribution agreement 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, a 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.
- (h) The Parent Company is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.
- (i) As of September 30, 2023, the Group has entered into a capital call agreement in relations to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.
- (j) The Parent Company has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Parent Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Parent Company dispose the shares by obtaining the approvals from the Board of Directors and Shareholders, the Parent Company has a pre-emptive right to purchase the shares under the condition notified by those shareholders. However, the pre-emptive right to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to the Parent Company.
- (k) As of September 30, 2023, the Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Note 23 (c)).

(l) Key management personnel compensation for the 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>

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

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

**(a) Market risk**

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

**① Currency risk**

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

**② Price risk**

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

**③ Interest rate risk**

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

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

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

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

**(c) Liquidity risk**

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

# KT&G Corporation and Its Subsidiaries

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



## 22. 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>	553,286	1,051,441
Financial assets measured at fair value through other comprehensive income or loss	230,721	206,494
Derivative assets	1,018	23,069
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	1,173,638	1,063,112
Other financial assets	319,172	243,901
Trade and other receivables	2,092,093	1,636,987
Long-term deposits	1,541,284	1,437,130
Subtotal	<u>5,126,187</u>	<u>4,381,130</u>
Total financial assets	<u>5,911,212</u>	<u>5,662,134</u>
Financial liabilities:		
Derivative liabilities	7,921	-
Financial liabilities measured at amortized cost		
Short-term borrowings	78,184	72,629
Current portion of long-term borrowings	18,944	4,126
Long-term borrowings and debentures	385,495	78,808
Trade and other payables	1,390,530	1,101,926
Lease liabilities	47,078	37,609
Liabilities for non-controlling interests	17,868	27,769
Subtotal	<u>1,938,099</u>	<u>1,322,867</u>
Total financial liabilities	<u>1,946,020</u>	<u>1,322,867</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.

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

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

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

Details of the fair values of financial instruments measured by each fair value hierarchy as of 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	553,286	-	184,371	368,915
Fair value through other comprehensive income or loss	230,721	221,216	-	9,505
Derivative assets	1,018	-	1,018	-
Total financial assets	<u>785,025</u>	<u>221,216</u>	<u>185,389</u>	<u>378,420</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>	1,051,441	-	693,490	357,951
Fair value through other comprehensive income or loss	206,494	196,989	-	9,505
Derivative assets	23,069	-	23,069	-
Total financial assets	<u>1,281,004</u>	<u>196,989</u>	<u>716,559</u>	<u>367,456</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.

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
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## 22. Risk Management and Fair Value of Financial Instruments (Continued)

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:

<i>(in millions of Korean won)</i>	September 30, 2023	September 30, 2022
Beginning balance	367,456	319,482
Acquisition	34,493	58,650
Disposal	(28,381)	(18,744)
Transfers	-	(28,300)
Changes in fair value	4,852	6,367
Ending balance	378,420	337,455

(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:

<i>(in millions of Korean won)</i>	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 for the period:						
Interest income	-	-	-	52,464	-	52,464
Dividend income	7,699	8,179	-	-	-	15,878
Gain or loss on valuation	28,925	-	(16,386)	-	-	12,539
Gain or loss on disposal	29	-	-	-	-	29
Interest expense	-	-	-	-	(40,062)	(40,062)
Reversal of impairment loss	-	-	-	11,236	-	11,236
Gain on lease contract adjustments	-	-	-	-	307	307
Other financial expense	-	-	-	-	(173)	(173)
Total	36,653	8,179	(16,386)	63,700	(39,928)	52,218
Other comprehensive income before tax:						
Net change in fair value and others	-	24,228	-	-	-	24,228

<i>(in millions of Korean won)</i>	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 for the period:						
Interest income	-	-	-	22,442	-	22,442
Dividend income	10,646	9,238	-	-	-	19,884
Gain or loss on valuation	21,968	-	(71,460)	-	-	(49,492)
Gain or loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(25,160)	(25,160)
Impairment loss	-	-	-	(14,160)	-	(14,160)
Gain on lease contract adjustments	-	-	-	-	110	110
Total	32,614	(1,062)	(71,460)	8,282	(25,050)	(56,676)
Other comprehensive income before tax:						
Net change in fair value and others	-	11,528	-	-	-	11,528



**23. Contingent Liabilities and Commitments**

## (a) Litigation cases

As of September 30, 2023, the Group has 15 pending litigations where the Group is in the position of the defendant, and the litigation amounts amount to ₩ 73,575 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of September 30, 2023.

## (b) Commitments with financial institutions

The Group'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 and one other	USD	110,300	86,369
Derivatives trading <sup>1</sup>	KB Kookmin Bank and five others	USD	323,500	11,897
Trade receivables factoring agreement	Hana Bank	KRW	5,000	341
Others	Korea Development Bank and five others	KRW	951,294	187,704
	Hana Bank Bahrain branch	USD	4,500	4,500

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

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	650,809	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	28,713	License guarantee, etc.
Hana Bank	KRW	100	Refund debt payment guarantee
ARCH and one other	USD	79	License bond payment guarantee
Ameria Bank	USD	500	Trade receivable payment guarantee
Garanti Bank and one other	TRY	23,000	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves
Alfa Bank and one other	RUB	2,119,283	Trade receivable payment guarantee

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 Group has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

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## 23. Contingent Liabilities and Commitments (Continued)

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

(in millions of Korean won or thousands of Russian Ruble)

Guarantee user	Guaranteed by	Currency	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	KRW	76,720	62,311	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	KRW	7,766	515	Loan guarantee for the intermediate payment of off-plan sales construction
Korea Special Sales Financial Cooperative Association Registered Agency	Korea Special Sales Financial Cooperative Association	KRW	801	-	Payment guarantee for deductibles and others of Sangmu branch
Buyer of Goyang Hyangdong district knowledge industry center	KB Kookmin Bank and two others	KRW	148,000	52,192	Loan guarantee for the intermediate payment of off-plan sales construction
Marisana Enterprises Limited	Aifa Bank	RUB	14,384	14,384	Payment guarantee for rent

The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 13).

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

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	22,061	10,000	15,600	KB Kookmin Bank	Long term borrowings
	46,807	32,750	44,400	Korea Development Bank	Long term borrowings and limit loan
	16,793	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	29,667	-	2,400	Korea Development Bank	Collateral for limit loan agreement
	2,776	10	30,000	Hana Bank	Facility loan
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
	80,848	48,000	57,600	KB Kookmin bank and one other	Short-term borrowings
Other financial assets and other receivables	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	1,553	-	1,553	Korea Housing & Urban Guarantee Corporation	Collateral for unsecured site
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
	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	200	-	110	Hana Bank	Innergim Mall payment guarantee
	5,000	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Pledge of Profit Rights	-	39,000	49,800	New tiger No.9 (1st), MJ Pro No.2 (2nd)	Pledge of Profit Rights
Investments in Associates	2,661	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	643,318	163,522	273,748		

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

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

Details of restricted financial assets as of 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
	Security deposits for checking accounts, etc.	422	417
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	-
	Innergjin Mall payment guarantee	110	-
Financial assets at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	5,000	-
Cash and cash equivalents	Establishment of a pledge to savings	1,682	1,680
Total		\ 120,274	\ 114,557

(d) Others

Each year, the Group deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Group inflicts damage on tobacco consumers due to any illegal activities committed by the Group and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩ 1,541,284 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 Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of September 30, 2023, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 147,291 million and ₩ 33,229 million, respectively (as of December 31, 2022: ₩ 112,930 million and ₩ 27,725 million, respectively).

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

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

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

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

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

The Group has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of 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.

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

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

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

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

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

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

In relation to the sales project of Elif Mia Complex 1 and 2, the Group has an obligation to sell a portion of the residential and commercial facilities built by the Group at a low price 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 Group has agreed with the constructor to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of \ 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 Group has reached agreement with Bando Engineering & Construction Co., Ltd. to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, and the completion date of the construction shall be October 20, 2023 under the agreement. For prompting the construction, the Group also promised to pay \ 10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until October 20, 2023.

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

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

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



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

The OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting) is intended to counter tax avoidance and tax base erosion through income transfer by multinational corporations in the digital economy. The BEPS Pillar Two model rules apply to multinational entities with revenue of EUR 750 million or more per their consolidated 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 Adjustmen". 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 Group in its consolidated financial statements as of September 30, 2023.

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## 24. 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>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Profit for the nine-month period ended September 30	809,441	1,065,361
Operating profit from continuing operations	814,968	1,072,197
Operating loss from discontinued operations	(5,527)	(6,836)
Adjustments:		
Employee welfare	5,737	4,096
Retirement benefits	29,884	38,215
Loss (reversal) on valuation or obsolescence of inventories	7,112	(334)
Depreciation	157,400	149,483
Amortization	22,005	15,455
Impairment loss (reversal of impairment loss) on trade and other receivables	(11,236)	14,160
Loss on foreign currency translation	57,423	30,064
Loss on valuation of derivatives	22,374	71,460
Loss on disposal of property, plant and equipment	3,003	1,177
Loss on impairment of property, plant and equipment	7,244	511
Loss on disposal of intangible assets	284	378
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 disposal of investments in associates and joint ventures	-	19
Loss on disposal of investments in subsidiaries	-	43
Other expenses, etc.	3,465	3,612
Finance cost	47,983	56,598
Share based payment expense	119	-
Income tax expense	312,848	452,825
Gain on foreign currency translation	(157,592)	(426,997)
Gain on valuation of derivatives	(5,988)	-
Gain on disposal of property, plant and equipment	(1,657)	(4,039)
Gain on disposal of intangible assets	(3)	-
Gain on disposal of right-of-use assets	(2)	-
Gain on disposal of investment properties	(6,823)	-
Gain on disposal of assets held-for-sale	-	(34,088)
Gain on disposal of investments in associates and joint ventures	-	(168)
Other income, etc.	(8,702)	(2,257)
Finance income	(105,218)	(85,432)
Increase of investments in associates and joint ventures due to share of net gain/loss	(8,075)	(30,458)
Changes in working capital:		
Increase in trade and other receivables	(417,456)	(425,126)
Decrease (increase) in derivatives	13,587	(43,974)
Decrease in inventories	131,635	161,953
Decrease (increase) in accrued tobacco excise and other taxes	(174,849)	20,904
Increase in advance payments	(106,177)	(65,815)
Decrease in prepaid expenses	11,845	9,598
Increase in net defined benefit assets	(621)	(2,202)
Increase in trade and other payables	435,366	42,935
Increase in advance receipts	9,261	5,142
Increase in tobacco excise and other taxes payable	185,151	114,725
Increase (decrease) in provision for site restoration	(83)	121
Cash generated from operations	<u>1,269,149</u>	<u>1,139,264</u>

# KT&G Corporation and Its Subsidiaries

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



## 25. Discontinued Operation

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

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

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Revenue <sup>1</sup>	347	3,402
Expenses <sup>2</sup>	(5,874)	(10,238)
Loss from discontinued operation, before tax	(5,527)	(6,836)
Income tax expense	-	-
Loss from discontinued operation, after tax	(5,527)	(6,836)
Exchange differences on translating foreign operations	(2,308)	(6,050)
Total comprehensive loss from discontinued operation	(7,835)	(12,886)

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

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

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

### (b) Cash flows from discontinued operation

<i>(in millions of Korean won)</i>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Cash flows from operating activities	(2,911)	(13,409)
Cash flows from investing activities	33	255
Cash flows from financing activities	(714)	(864)
Changes due to foreign currency translation	995	4,961
Total cash flow	(2,597)	(9,057)





### 26. Subsequent Events

On October 5, 2023, the Parent 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 Parent 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 Parent 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.