



KT&G Corporation

Interim separate financial statements
for each of the three-month periods ended March 31, 2024 and 2023
With the independent auditor's review report

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Report on review of interim separate financial statements
(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors
KT&G Corporation

We have reviewed the accompanying interim separate financial statements of KT&G Corporation (the “Company”), which comprise the interim separate statement of financial position as of March 31, 2024, and the related interim separate statements of comprehensive income, interim separate statements of changes in equity and interim separate statements of cash flows for each of the three-month periods ended March 31, 2024 and 2023, and a summary of material accounting policy information and other explanatory information.

Management’s responsibility for the interim separate financial statements

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

Auditor’s responsibility

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

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by 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 separate financial statements are not prepared, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

Other matter

We have audited the separate statement of financial position as of December 31, 2023, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended (not presented herein) in accordance with KSA, and our report dated March 4, 2024 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as of December 31, 2023, presented for comparative purposes, is not different, in all material respects, from the above audited separate statement of financial position.

Ernst & Young Han Young

May 10, 2024

This review report is effective as of May 10, 2024, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim separate financial statements and may result in modifications to this review report.

KT&G Corporation

Interim separate financial statements for each of the three-month periods ended March 31, 2024 and 2023

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

Kyung-Man Bang
Chief Executive Officer
KT&G Corporation

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KT&G Corporation
Interim Separate Statements of Financial Position
As of March 31, 2024 (Unaudited) and December 31, 2023



(in millions of Korean won)

	Notes		March 31, 2024		December 31, 2023
Assets					
Current assets					
Cash and cash equivalents	22	W	193,014	W	210,392
Other financial assets	22,23		102,367		102,403
Current financial assets measured at fair value through profit or loss	22		517,157		342,933
Trade and other receivables	5,16,21,22,23		1,435,885		1,433,909
Derivative assets	22,23		522		7,751
Inventories	6		1,353,100		1,222,802
Refund assets and others			706		746
Accrued tobacco excise and other taxes			225,308		217,569
Advanced payments			8,451		441
Prepaid expenses			15,970		15,326
Total current assets			3,852,480		3,554,272
Non-current assets					
Long-term other financial assets	22,23		84,039		84,040
Long-term deposits in MSA Escrow Fund	22,23		1,533,267		1,479,737
Long-term financial assets measured at fair value through profit or loss	22,23		344,772		337,216
Long-term trade and other receivables	5,21,22		209,359		254,744
Long-term financial assets measured at fair value through other comprehensive income or loss	22		207,957		182,106
Investments in associates and joint ventures	7,21,23		472,341		457,341
Investments in subsidiaries	8,21,23		1,589,323		1,475,656
Property, plant and equipment	9,21		1,314,684		1,282,113
Intangible assets	10		136,759		133,920
Investment properties	11,23		851,062		992,523
Right-of-use assets	12,21		24,889		26,299
Long-term prepaid expenses			9,874		9,652
Deferred tax assets	20		14,303		60,874
Net defined benefit assets	14,21		44,662		43,428
Total non-current assets			6,837,291		6,819,649
Total assets		W	10,689,771	W	10,373,921
Liabilities					
Current liabilities					
Short-term borrowings	13,22	W	50,000	W	-
Trade and other payables	21,22,23		1,882,615		1,416,275
Derivative liabilities	22,23		4,857		-
Current lease liabilities	21,22		6,281		6,407
Advanced receipts	16		8,220		8,646
Current refund liabilities and provisions	15		6,436		7,154
Current tax liabilities	20		138,890		164,435
Tobacco excise and other taxes payables			530,859		561,303
Total current liabilities			2,628,158		2,164,220
Non-current liabilities					
Bonds	13,22		299,248		299,165
Long-term trade and other payables	21,22,23		57,447		51,938
Long-term lease liabilities	21,22		16,306		17,532
Long-term advance receipts	16		7,073		5,829
Long-term refund liabilities and provisions	15		3,006		2,712
Total non-current liabilities			383,080		377,176
Total liabilities		W	3,011,238	W	2,541,396

KT&G Corporation

Interim separate statements of financial position, continued as of March 31, 2024 (Unaudited) and December 31, 2023



(in millions of Korean won)

	<u>Notes</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Equity			
Share capital	₩	954,959	₩ 954,959
Other capital surplus		3,726	4,030
Treasury shares		(1,030,541)	(1,236,933)
Gain on sale of treasury shares		529,029	528,894
Reserves		7,149,362	7,238,475
Retained earnings		71,998	343,100
Total equity	₩	<u>7,678,533</u>	₩ <u>7,832,525</u>
Total liabilities and equity	₩	<u>10,689,771</u>	₩ <u>10,373,921</u>

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

KT&G Corporation

Interim separate statements of comprehensive income For each of the three-month periods ended March 31, 2024 and 2023 (Unaudited)



(in millions of Korean won)

	Notes	March 31, 2024	March 31, 2023
Sales	4,21	₩ 791,799	₩ 821,013
Manufacture of tobacco		710,586	729,683
Real estate	16	41,322	58,628
Exports of leaf tobacco and others		<u>39,891</u>	<u>32,702</u>
Cost of sales	21	(388,103)	(401,185)
Manufacture of tobacco		(336,368)	(345,029)
Real estate	16	(21,374)	(26,802)
Exports of leaf tobacco and others		<u>(30,361)</u>	<u>(29,354)</u>
Gross profit		403,696	419,828
Selling, general and administrative expense	17,21	<u>(195,040)</u>	<u>(189,566)</u>
Operating profit		208,656	230,262
Other income	18,21,22	117,370	79,651
Other expense	18,21,22	(22,254)	(27,128)
Finance income	19,21,22	48,961	83,511
Finance costs	19,21,22	<u>(7,436)</u>	<u>(10,956)</u>
Profit before income tax		345,297	355,340
Income tax expense	20	<u>(67,154)</u>	<u>(99,630)</u>
Profit for the period		₩ <u>278,143</u>	₩ <u>255,710</u>
Other comprehensive income (loss) for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	₩	(113)	₩ (1,704)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss		19,027	700
		<u>18,914</u>	<u>(1,004)</u>
Total comprehensive income for the period	₩	₩ <u>297,057</u>	₩ <u>254,706</u>
Earnings per share			
Basic and diluted	₩	₩ <u>2,465</u>	₩ <u>2,199</u>

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

Interim separate statements of changes in equity
For each of the three-month periods ended March 31, 2024 and 2023 (Unaudited)

(in millions of Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total equity
Balance as of January 1, 2023	₩ 954,959	₩ 3,562	₩ (1,236,933)	₩ 528,894	₩ 6,814,100	₩ 989,001	₩ 8,053,603
Total comprehensive income (loss) for the period	-	-	-	-	-	₩ 255,710	₩ 255,710
Profit for the period	-	-	-	-	-	(1,704)	(1,704)
Other comprehensive income (loss) for the period:	-	-	-	-	700	-	700
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	700	-	700
Subtotal other comprehensive income (loss) for the period	-	-	-	-	700	(1,704)	(1,004)
Total comprehensive income (loss) for the period	-	-	-	-	700	254,006	254,706
Transactions with owners of the Company:							
Dividends paid	-	-	-	-	-	(681,400)	(681,400)
Transfer to other reserve	-	-	-	-	407,602	(407,602)	-
Total Transactions with owners of the Company	-	-	-	-	407,602	(689,002)	(681,400)
Balance as of March 31, 2023	₩ 954,959	₩ 3,562	₩ (1,236,933)	₩ 528,894	₩ 7,222,402	₩ 254,005	₩ 7,726,909
Balance as of January 1, 2024	₩ 954,959	₩ 4,030	₩ (1,236,933)	₩ 528,894	₩ 7,238,475	₩ 343,100	₩ 7,832,525
Total comprehensive income (loss) for the period	-	-	-	-	-	₩ 278,143	₩ 278,143
Profit for the period	-	-	-	-	-	(113)	(113)
Other comprehensive income (loss) for the period:	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	19,027	-	19,027
Subtotal other comprehensive income (loss) for the period	-	-	-	-	19,027	(113)	18,914
Total comprehensive income (loss) for the period	-	-	-	-	19,027	278,030	297,057
Transactions with owners of the Company:							
Dividends paid	-	-	-	-	-	(451,240)	(451,240)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-
Retirement of treasury shares	-	-	206,032	-	-	(206,032)	-
Share options	-	(304)	360	135	-	-	191
Total Transactions with owners of the Company	-	(304)	206,392	135	(108,140)	(549,132)	(451,049)
Balance as of March 31, 2024	₩ 954,959	₩ 3,726	₩ (1,030,541)	₩ 529,029	₩ 7,149,362	₩ 71,998	₩ 7,678,533

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

KT&G Corporation

Interim separate statements of cash flows

For each of the three-month periods ended March 31, 2024 and 2023 (Unaudited)



(in millions of Korean won)

	Notes	March 31, 2024	March 31, 2023
Net cash flows provided by (used in) operating activities		₩ 230,536	₩ (236,502)
Cash generated from operations	24	283,448	(155,626)
Income taxes paid		(52,912)	(80,876)
Net cash flows used in investing activities		(296,430)	(108,736)
Interest received		28,576	16,858
Dividends received		61,088	4,047
Decrease in other financial assets		36	36,340
Decrease in current financial assets measured at fair value through profit or loss		17,010	108,672
Decrease in long-term financial assets measured at fair value through profit or loss		1,407	1,187
Disposal of property, plant and equipment		1,170	238
Disposal of intangible assets		10	-
Disposal of investment properties		5,143	3,350
Collection of loans		4,258	4,089
Collection of guarantee deposits		72	-
Increase in other financial assets		-	(6,340)
Increase in current financial assets measured at fair value through profit or loss		(182,668)	(95)
Increase in long-term financial assets measured at fair value through profit or loss		(10,554)	(150)
Increase in long-term deposits in MSA Escrow Fund		-	(474)
Acquisition of property, plant and equipment		(75,238)	(72,287)
Acquisition of intangible assets		(8,364)	(13,349)
Acquisition of investment properties		(1,671)	(1,316)
Acquisition of investments in associates and joint ventures		(15,000)	-
Acquisition of investments in subsidiaries		(113,667)	(125,637)
Increase in loans		(7,961)	(63,866)
Increase in guarantee deposits		(77)	(3)
Net cash flows provided by (used in) financing activities		43,305	(2,353)
Interest paid		(4,569)	(301)
Repayment of lease liabilities		(2,126)	(2,033)
Proceeds in short-term borrowings		50,000	260,000
Repayment in short-term borrowings		-	(260,019)
Net decrease in cash and cash equivalents		(22,589)	(347,591)
Cash and cash equivalents at the beginning of the period		210,392	939,550
Effect of exchange rate fluctuation on cash and cash equivalents		5,211	1,439
Cash and cash equivalents at the end of the period		₩ 193,014	₩ 593,398

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

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2024, the Company has three manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

2. Material Accounting Policies

(1) Basis of Preparation

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

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

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

The Company does not have a history of early adoption of new accounting standards and interpretations that have been published but are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time in the 2024 reporting period. As of March 31, 2024, these amendments and interpretations do not have a significant impact on the interim separate financial statements.

(a) Amendments to KIFRS 1001 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity’s own equity instruments, however, it would be excluded if an option to settle them by the entity’s own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. In addition, covenants that an entity is required to comply with after the end of the reporting period would not affect classification of a liability as current or non-current at the reporting date. When an entity classifies a liability that is subject to the covenants which an entity is required to comply with within twelve months of the reporting date as non-current at the end of the reporting period, the entity shall disclose information in the notes to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

2. Material Accounting Policies (cont'd)*(b) Amendments to KIFRS 1007 Statement of Cash Flows, KIFRS 1107 Financial Instruments: Disclosures – Supplier finance arrangements*

When applying supplier finance arrangements, an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

(c) Amendments to KIFRS 1116 Leases – Lease Liability in a Sale and Leaseback

When subsequently measuring lease liabilities arising from a sale and leaseback, a seller-lessee shall determine lease payments or revised lease payments in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

(d) Amendments to KIFRS 1001 Presentation of Financial Statements – Disclosure of Virtual Assets

These amendments mandate entities to disclose material information for the financial statement users such as the impact of holding and issuing virtual assets on their accounting policies and financial statements. The entities should separately disclose information related to holding virtual assets, holding them on behalf of the customers, and issuing them.

(3) Material Accounting Policies

Material accounting policies and method of computation used in the preparation of the interim separate financial statements are consistent with those of the separate financial statements for the year ended December 31, 2023, except for the changes due to the application of amendment and enactments of standards described in Note 2. (2) and the one described below.

(a) Income Tax Expense

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

3. Material Accounting Estimates and Assumptions

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

Material accounting estimates and assumptions applied in the preparation of these interim separate financial statements are the same as those applied to the separate financial statements for the year ended December 31, 2023, except for the estimates used to determine the income tax expense.

4. Operating Segment

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

<i>(in millions of Korean won)</i>			<u>March 31, 2024</u>	<u>March 31, 2023</u>
Revenue recognized at a point in time:				
Sales of tobacco/merchandise and service revenue and others	Korea	Wholesale and retail	₩ 511,571	₩ 516,399
		Direct sales	1,439	1,153
Sales of semifinished tobacco products/raw materials and others	Export	Wholesale and retail	197,576	212,131
	Korea	Direct sales	1,286	59
Sales and rental of real estate	Export	Direct sales	38,605	32,643
	Korea	Sales	6,323	-
Subtotal			<u>756,800</u>	<u>762,385</u>
Revenue recognized over time:				
Sales and rental of real estate	Korea	Sales	12,591	36,768
		Rental	22,408	21,860
Subtotal			<u>34,999</u>	<u>58,628</u>
Total			<u>₩ 791,799</u>	<u>₩ 821,013</u>

5. Trade and Other Receivables

(a) Details of trade and other receivables as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 968,308	₩ 64,502	₩ 988,516	₩ 62,818
Loans	387,371	88,803	315,083	139,676
Other receivables	25,533	17,119	82,403	8,778
Guarantee deposits	46,087	29,228	37,955	37,977
Accrued income	8,586	9,707	9,952	5,495
Total	₩ 1,435,885	₩ 209,359	₩ 1,433,909	₩ 254,744

(b) Details of allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,492,011	₩ 347,418	₩ 1,483,123	₩ 392,891
Allowances:				
Trade receivables	(56,057)	(95,277)	(49,113)	(96,203)
Other receivables	(69)	(42,782)	(101)	(41,944)
Subtotal	(56,126)	(138,059)	(49,214)	(138,147)
Net trade and other receivables	₩ 1,435,885	₩ 209,359	₩ 1,433,909	₩ 254,744

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024	March 31, 2023
Beginning balance	₩ 187,361	₩ 203,467
Impairment loss	6,824	7,894
Ending balance	₩ 194,185	₩ 211,361

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

6. Inventories

(a) Details of inventories as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	March 31, 2024			December 31, 2023		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 16,328	₩ (2,832)	₩ 13,496	₩ 19,213	₩ (1,597)	₩ 17,616
Finished goods	127,447	(13,098)	114,349	120,841	(13,157)	107,684
Half-finished goods	37,834	(956)	36,878	43,706	(980)	42,726
Work in progress	3,017	-	3,017	2,668	-	2,668
Raw materials	747,827	(113)	747,714	692,687	(233)	692,454
Materials	35,742	(2,396)	33,346	43,540	(2,999)	40,541
Supplies	59,951	-	59,951	57,419	-	57,419
By-products	8,017	-	8,017	7,577	-	7,577
Buildings under construction	23,680	-	23,680	19,965	-	19,965
Completed buildings	101,463	-	101,463	105,631	-	105,631
Sites for construction of real estate	167,597	-	167,597	41,741	-	41,741
Goods in transit	43,592	-	43,592	86,780	-	86,780
Total	₩ 1,372,495	₩ (19,395)	₩ 1,353,100	₩ 1,241,768	₩ (18,966)	₩ 1,222,802

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024	March 31, 2023
Cost of sales:		
Loss (reversal of loss) on valuation of inventories	₩ 429	₩ (2,079)
Loss on obsolescence of inventories	2,177	2,680
Total	₩ 2,606	₩ 601

7. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of March 31, 2024 and December 31, 2023, are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	March 31, 2024		December 31, 2023	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.53	₩ 1,830	12.53	₩ 1,830
	KORAMCO Banpo PFV Co., Ltd. ^{1,2}	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT	Korea	Real estate investment, development and rental business	26.47	39,568	26.47	39,568
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Cheongna Medipolis PFV Co., Ltd. ³	Korea	Real estate development and sales	51.01	101,000	51.01	101,000
	INNODIS Co., Ltd. ¹	Korea	Game, advertizing agency	19.64	55	19.64	55
	SJ BIO MED Co., Ltd. ^{1,4}	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	21.92	-	21.92	-
	Mirae Asset KT&G Investment Fund I	Korea	Healthcare, ESG, New growth industry	45.00	9,000	45.00	9,000
	KB KT&G New Growth Fund 1 ⁵	Korea	Healthcare, New growth industry	66.67	3,000	66.67	3,000
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	Renting of real estate	51.35	18,468	51.35
Starfield Suwon Inc.		Korea	Real estate development and rental business	50.00	259,500	50.00	244,500
Total					₩ 472,341		₩ 457,341

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

²As of March 31, 2024, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan (see Notes 21 (o) and 23 (c)).

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

⁴As of March 31, 2024, liquidation procedures are in progress.

⁵Although the ownership exceeds 50%, the Company has classified the ownership as investment in associates as the Company does not have control over related activities and has significant influence through participating on investment decision-making authority.

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

7. Investments in Associates and Joint Ventures (cont'd)

During the three-month period ended March 31, 2024, the Company additionally acquired 300,000 shares (₩ 15,000 million) of Starfield Suwon, Inc., a joint venture, through the issuance of new stocks.

During the year ended December 31, 2023, the Company has acquired additional equity securities of Mirae Asset KT&G Investment Fund I (45 shares for ₩ 4,500 million), an associate, additionally acquired 16,795,600 preferred shares (₩ 83,978 million) of Cheongna Medipolis PFV Co., Ltd., an associate, and 2,000,000 shares (₩ 100,000 million) of Starfield Suwon Inc., a joint venture, through the issuance of new stocks.

During the year ended December 31, 2023, the Company newly invested ₩ 3,000 million to KB KT&G New Growth Fund 1, an associate.

During the year ended December 31, 2023, the Company partially disposed of KORAMCO Europe Private REIT 3-2 Fund, an associate, and recognized gain on disposal of investment in associates of ₩ 9 million.

8. Investments in subsidiaries

(a) Details of investments in subsidiaries as of March 31, 2024 and December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>			March 31, 2024		December 31, 2023	
Name of entity	Location	Principal operation	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industrial Co., Ltd.	Korea	Manufacturing reconstituted tobacco leaves	100.00	117,698	100.00	117,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Türkiye	Manufacturing and selling tobaccos	100.00	116,731	99.99	57,039
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	-	100.00	-
Cosmococ Co., Ltd.	Korea	Manufacturing and selling tobacco	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. ¹	Singapore	Holding Company	100.00	163,104	100.00	163,104
PT Trisakti Purwosari Makmur ²	Indonesia	Manufacturing and selling tobacco	6.56	1,162	6.56	1,162
SangSang Stay Inc.	Korea	Hotel	100.00	32,068	100.00	32,068
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon SangSang PFV. Inc	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	100.00	8,081
Mastern No. 144 PFV Co., Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
KT&G Global Kazakhstan LLP	Kazakhstan	Selling tobaccos	100.00	18,510	100.00	18,510
KT&G Kazakhstan LLP	Kazakhstan	Manufacturing and selling tobacco	100.00	88,262	100.00	35,910
DNC Deogeun Co., Ltd. ³	Korea	Real estate development and sales business	38.25	35,552	38.25	35,552
Edn the pine central Seocho Co., Ltd. ⁴	Korea	Real estate development and sales business	78.65	36,623	78.65	35,000
	Total			₩ 1,589,323		₩ 1,475,656

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

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

³The Company has acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries as it is considered that the Company holds substantial decision-making right over related activities that has significant impact on the profit or losses of the Company through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

⁴The book amount has increased due to the payment of acquisition tax during the three-month period ended March 31, 2024.

8. Investments in subsidiaries (cont'd)

During the three-month period ended March 31, 2024, the Company acquired 272,490,615 shares (₩ 59,692 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. through issuance of new stocks and additional equity securities of ₩ 52,352 million of KT&G Kazakhstan LLP.

During the year ended December 31, 2023, the Company acquired 75,344,496 shares (₩ 25,624 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. through issuance of new stocks, 6,000,000 shares (₩ 30,000 million) of SangSang Stay Inc., 1,408,940 shares (₩ 65,000 million) of Tae-A Industry Co., Ltd. and additional equity securities of ₩ 19,722 million of KT&G Kazakhstan LLP.

During the year ended December 31, 2023, the Company newly established KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP through capital investment of ₩ 18,510 million and ₩ 16,188 million, respectively.

During the year ended December 31, 2023, the Company acquired 3,825 preferred shares with voting rights (₩ 35,552 million) of DNC Deogeun Co., Ltd. and 7,000,000 preferred shares with voting rights (₩ 35,000 million) of Edn the pine central Seocho Co., Ltd.

(b) Impairment

The Company conducts a review of impairment indicators for investments in subsidiaries and, if there is an indicator, the Company estimates the recoverable amount and performs an impairment test.

The Company has recognized impairment losses for its investment in subsidiaries where impairment indicators have been identified, such as the book value of net assets being lower than the book value of investments due to continuous accumulation of operating losses, etc. Details of such impairment loss recognized for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024	March 31, 2023	Method for evaluating recoverable amount
SangSang Stay Inc.	₩ -	₩ 266	Fair value less costs to sell

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

9. Property, Plant and Equipment

Changes in property, plant and equipment for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		March 31, 2023	
Beginning balance	₩	1,282,113	₩	1,177,839
Acquisition ¹		58,997		23,161
Disposal/Impairment		(719)		(408)
Depreciation		(25,567)		(25,139)
Reclassification ²		(140)		(5,727)
Ending balance	₩	1,314,684	₩	1,169,726

¹During the three-month period ended March 31, 2024, the Company has capitalized borrowing costs amounting to ₩ 2,087 million are included for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4% to 4.5%.

²Consists of ₩ 140 million of transfers to investment properties for the three-month period ended March 31, 2024, and ₩ 5,727 million of transfers to investment properties for the three-month period ended March 31, 2023.

10. Intangible Assets

Changes in intangible assets for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		March 31, 2023	
Beginning balance	₩	133,920	₩	122,485
Acquisition		8,595		10,830
Disposal/Impairment		(53)		(63)
Amortization		(5,703)		(4,714)
Reclassification		-		(13)
Ending balance	₩	136,759	₩	128,525

11. Investment Properties

Changes in investment properties for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		March 31, 2023	
Beginning balance	₩	992,523	₩	1,029,217
Acquisition ¹		1,671		1,316
Disposal/Impairment		(721)		(787)
Depreciation		(6,898)		(6,903)
Reclassification ²		(135,513)		5,727
Ending balance	₩	<u>851,062</u>	₩	<u>1,028,570</u>

¹During the three-month period ended March 31, 2024, the Company has capitalized borrowing costs amounting to ₩ 881 million are included for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4% to 4.5%.

²Consists of ₩ 140 million of transfers from property, plant and equipment and ₩ 135,653 million of transfers to inventories for the three-month period ended March 31, 2024, and ₩ 5,727 million of transfers from property, plant and equipment for the three-month period ended March 31, 2023.

12. Right-of-use Assets

Changes in right-of-use assets for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		March 31, 2023	
Beginning balance	₩	26,299	₩	25,640
Acquisition		1,370		2,143
Disposal		(95)		(205)
Depreciation		(2,685)		(2,514)
Ending balance	₩	<u>24,889</u>	₩	<u>25,064</u>

13. Borrowings and Bonds

(a) Details of short-term borrowings as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Lender	March 31, 2024	December 31, 2023
Limit loan	Shinhan Bank	₩ 50,000	₩ -

(b) Details of bonds as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Issued Date	Maturity	Annual interest rate (%)	March 31, 2024	December 31, 2023
2-1 st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩ 100,000	₩ 100,000
2-2 nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	200,000
Subtotal				300,000	300,000
	Discount on bonds			(752)	(835)
	Total			₩ 299,248	₩ 299,165
Current				-	-
Non-current				299,248	299,165
	Total			₩ 299,248	₩ 299,165

14. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024	March 31, 2023
Defined benefit plans:		
Current service cost	₩ 7,538	₩ 6,835
Net interest on net defined benefit liabilities	(464)	(1,029)
Subtotal	7,074	5,806
Defined contribution plan:		
Contributions recognized as expense	1,974	1,792
Other long-term employee benefits:		
Current service cost, etc.	1,091	895
Termination benefits:		
Voluntary retirements, etc.	1,543	355
Total	₩ 11,682	₩ 8,848

14. Employee Benefits (cont'd)

(b) Details of net defined benefit liabilities (assets) as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	March 31, 2024		December 31, 2023	
Present value of defined benefit obligations	₩	388,421	₩	391,192
Fair value of plan assets		(433,083)		(434,620)
Total	₩	(44,662)	₩	(43,428)

15. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	March 31, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,637	₩ -	₩ 1,780	₩ -
Refund liabilities	4,647	2,881	5,221	2,575
Provision for site restoration	84	111	84	111
Provision for financial guarantee	9	14	18	26
Provision for greenhouse gases	59	-	51	-
Total	₩ 6,436	₩ 3,006	₩ 7,154	₩ 2,712

(b) Changes in refund liabilities and provisions for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 812	₩ (955)	₩ 1,637
Refund liabilities	7,796	-	(268)	7,528
Provision for site restoration	195	-	-	195
Provision for financial guarantee	44	-	(21)	23
Provision for greenhouse gases	51	8	-	59
Total	₩ 9,866	₩ 820	₩ (1,244)	₩ 9,442

(in millions of Korean won)

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

16. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sale contracts for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

March 31, 2024								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value ¹	Total sales contract value	Revenue (cumulative) ²	Revenue (period) ³	Cost (cumulative) ⁴
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	-	₩ 338,101
ePyeonghansesang Daejeon station	December 2022	June 2026	37.21	226,951	193,218	71,820	7,437	59,919
Centum Vista Nokbeon-dong Mixed-use building	April 2023	February 2025	42.73	29,720	25,220	10,776	1,894	7,060
Elif Mia station Complex 1	May 2023	August 2026	20.95	61,562	39,511	8,247	1,018	6,098
Elif Mia station Complex 2	May 2023	August 2026	19.83	155,141	102,705	20,331	2,242	14,521
Total				₩ 1,276,430	₩ 1,108,624	₩ 859,120	₩ 12,591	₩ 425,699

¹Includes the expected sales value for commercial buildings, efficiency apartments, and apartments that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

²This is the amount after deducting prepayment discounts, etc. from the total sales contract value.

³Excludes the revenue of ₩ 6,323 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the three-month period ended March 31, 2024.

⁴Excludes cumulative cost for common infrastructure, amounting to ₩ 227,438 million.

(in millions of Korean won)

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

¹Includes the expected sales value for commercial buildings, efficiency apartments that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

²Excludes cumulative cost for common infrastructure, amounting to ₩ 104,205 million.

16. Real Estate Pre-sales Contracts (cont'd)

(b) Details of receivables and payables for ongoing real estate pre-sale contracts as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

Construction project	March 31, 2024			
	Revenue (cumulative)	Cash collected, etc. (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 741,475	₩ 6,656	₩ 185
ePyeonghansang Daejeon station Centum Vista	71,820	23,813	48,722	715
Nokbeon-dong Mixed-use building	10,776	-	10,776	-
Elif Mia station Complex 1	8,247	4,793	3,540	86
Elif Mia station Complex 2	20,331	12,523	8,025	217
Total	₩ 859,120	₩ 782,604	₩ 77,719	₩ 1,203

¹As of March 31, 2024, contract assets unclaimed to customers are ₩ 71,055 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

²Includes advanced receipts for the option contract (balcony) in relation to main construction, which is recognized using the percentage of completion method.

(in millions of Korean won)

Construction project	December 31, 2023			
	Revenue (cumulative)	Cash collected, etc. (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 708,687	₩ 39,500	₩ 241
ePyeonghansang Daejeon station Centum Vista	64,384	23,852	41,250	718
Nokbeon-dong Mixed-use building	8,882	-	8,882	-
Elif Mia station Complex 1	7,229	4,815	2,505	91
Elif Mia station Complex 2	18,088	12,529	5,782	223
Gireum-dong Neighborhood Commercial Facilities	27,580	27,580	-	-
Total	₩ 874,109	₩ 777,463	₩ 97,919	₩ 1,273

¹As of December 31, 2023, contract assets unclaimed to customers are ₩ 58,406 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

²Includes advanced receipts for the option contract (balcony) in relation to main construction, which is recognized using the percentage of completion method.

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the three-month period ended March 31, 2024. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sale contracts are based on the circumstances that have occurred until March 31, 2024 and subject to probable changes in the future.

16. Real Estate Pre-sales Contracts (cont'd)

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of March 31, 2024 and December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		December 31, 2023	
	Trade receivables for sale in lots	Advanced receipts for sale in lots ¹	Trade receivables for sale in lots	Advanced receipts for sale in lots ¹
Suwon Hwaseo Prugio Briciel	₩ -	₩ 1,358	₩ -	₩ 1,465
ePyeonghansesang Daejeon station Centum Vista	-	96	-	93
Elif Mia station Complex 1	-	343	-	322
Elif Mia station Complex 2	-	1,455	-	666
Sangbong station Ubora First Live and Four Square	8,582	811	6,626	774
Total	₩ 8,582	₩ 4,063	₩ 6,626	₩ 3,320

¹Excludes advanced receipts for the option contract (balcony) in relation to main construction, which is recognized using the percentage of completion method.

17. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024	March 31, 2023
Salaries	₩ 75,731	₩ 77,563
Retirement and termination benefits	7,120	5,394
Employee welfare	9,395	8,635
Travel expenses	2,789	2,656
Communication cost	753	693
Utilities	4,046	4,226
Taxes and dues	2,351	1,880
Supplies	365	891
Rent	1,540	2,223
Depreciation	7,644	8,358
Amortization	4,104	4,679
Repairs and maintenance	1,322	460
Vehicles	744	797
Insurance	527	392
Commissions	37,003	39,154
Freight and custody	4,823	5,386
Conferences	807	837
Advertising	19,297	16,818
Education and training	1,263	1,416
Prizes and rewards	242	308
Research and development	7,156	3,477
Impairment loss on trade receivables	6,018	3,323
Total	₩ 195,040	₩ 189,566

18. Other Income and Expense

(a) Details of other income for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Gain on foreign currency transaction	₩ 6,984	₩ 5,947
Gain on foreign currency translation	103,072	62,502
Gain on valuation of derivatives	35	3,805
Gain on disposal of property, plant and equipment	75	1,391
Gain on disposal of intangible assets	2	-
Gain on disposal of investment properties	4,876	2,622
Gain on lease contract adjustments	22	18
Miscellaneous income	2,304	3,366
Total	₩ <u>117,370</u>	₩ <u>79,651</u>

(b) Details of other expense for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Loss on foreign currency transaction	₩ 4,517	₩ 6,728
Loss on foreign currency translation	3,064	2,732
Loss on valuation of derivatives	13,053	9,398
Loss on impairment of other receivables	805	4,571
Loss on disposal of property, plant and equipment	10	14
Loss on disposal of intangible assets	4	-
Loss on impairment of intangible assets	41	63
Loss on disposal of investment properties	55	59
Loss on impairment of investments in subsidiaries	-	266
Loss on lease contract adjustments	1	2
Donations	558	537
Miscellaneous loss	146	2,758
Total	₩ <u>22,254</u>	₩ <u>27,128</u>

19. Finance Income and Costs

Details of finance income and costs for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024		March 31, 2023	
Finance income:				
Interest income ¹	₩	22,151	₩	13,860
Dividend income		16,505		41,731
Gain on valuation of financial assets measured at fair value through profit or loss		10,305		27,920
Total finance income	₩	48,961	₩	83,511
Finance cost:				
Interest expense	₩	4,106	₩	908
Loss on valuation of financial assets measured at fair value through profit or loss		3,330		10,048
Total finance cost	₩	7,436	₩	10,956
Net finance income	₩	41,525	₩	72,555

¹The interest income is generated from financial instruments measured at amortized cost.

20. Income Tax Expense and Deferred Tax Asset

(a) Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for each of the three-month periods ended March 31, 2024 and 2023, are 19.45% and 28.04%, respectively.

(b) Pillar Two legislation has been enacted or substantially enacted in some jurisdictions where the Company operates. According to the amendment to the Adjustment of International Taxes Act No. 19191 in the Republic of Korea, the Company expects to be subject to the application of Pillar Two Model Rules legislation starting from the fiscal year commencing on January 1, 2024. The Company is currently assessing the impact of implementing Pillar Two Model Rules on the Company, and it is expected that the implication of Pillar Two legislation shall affect the net profits of the Company's constituent entities domiciled in certain jurisdictions where the effective tax rate of Pillar Two income tax is predicted to be less than 15%.

As of March 31, 2024, the Company estimates that the impact of Pillar Two income taxes on its separate financial statements will be immaterial, in accordance with its assessment result identified so far. The Company will apply the temporary exception to the recognition and disclosure of deferred income tax assets and liabilities related to Pillar Two legislation.

21. Related Parties

(a) Details of the Company's related parties as of March 31, 2024 and December 31, 2023 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)						
			March 31, 2024			December 31, 2023			
			Parent	Subsidiary	Total	Parent	Subsidiary	Total	
Subsidiaries	Korea Ginseng Corporation	Korea	100.00	-	100.00	100.00	-	100.00	
	Yungjin Pharm. Co., Ltd.	Korea	52.45	-	52.45	52.45	-	52.45	
	Tae-A Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Tuntun Mamulleri Sanyı ve Ticaret A.S.	Türkiye	100.00	-	100.00	99.99	-	99.99	
	Korea Tabacos do Brasil Ltda.	Brazil	99.99	-	99.99	99.99	-	99.99	
	KT&G Pars	Iran	99.99	-	99.99	99.99	-	99.99	
	KT&G Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00	
	KT&G USA Corporation	USA	100.00	-	100.00	100.00	-	100.00	
	Cosmococ Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56	
	Renzouluc Pte., Ltd. ¹	Singapore	100.00	-	100.00	100.00	-	100.00	
	PT Trisakti Purwosari Makmur ²	Indonesia	6.56	93.43	99.99	6.56	93.43	99.99	
	PT TSPM FLAVOR AND FRAGRANCE ³	Indonesia	-	100.00	100.00	-	-	-	
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Global Rus L.L.C	Russia	100.00	-	100.00	100.00	-	100.00	
	Gwacheon SangSang PFV. Inc	Korea	51.00	-	51.00	51.00	-	51.00	
	KT&G Taiwan Corporation	Taiwan	100.00	-	100.00	100.00	-	100.00	
	Mastern No.144 PFV Co. Ltd.	Korea	92.50	-	92.50	92.50	-	92.50	
	KT&G Global Kazakhstan LLP ⁴	Kazakhstan	100.00	-	100.00	100.00	-	100.00	
	KT&G Kazakhstan LLP ⁴	Kazakhstan	100.00	-	100.00	100.00	-	100.00	
	DNC Deogeun Co., Ltd. ⁵	Korea	38.25	-	38.25	38.25	-	38.25	
	K&I China Co., Ltd.	China	-	98.56	98.56	-	98.56	98.56	
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00	
	KGC Life & Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00	
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00	
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00	
	Korea Red Ginseng Corp., Inc.	USA	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng Corp. Japan	Japan	-	100.00	100.00	-	100.00	100.00	
	PT Nusantara Indah Makmur	Indonesia	-	99.96	99.96	-	99.96	99.96	
	Edn the pine central Seocho Co., Ltd.	Korea	78.65	-	78.65	78.65	-	78.65	
	Associates	LitePharmTech, Co., Ltd. ⁶	Korea	12.53	-	12.53	12.53	-	12.53
		KORAMCO Banpo PFV Co., Ltd. ⁶	Korea	18.95	-	18.95	18.95	-	18.95
KORAMCO Dongjak PFV Co., Ltd. ⁶		Korea	19.47	-	19.47	19.47	-	19.47	
KOCREF 36 REIT		Korea	21.01	-	21.01	21.01	-	21.01	
KOCREF 41 REIT		Korea	26.47	-	26.47	26.47	-	26.47	
AndaStation Professional Investment Private REIT No.1		Korea	21.43	-	21.43	21.43	-	21.43	
Cheongna Medipolis PFV Co., Ltd. ⁷		Korea	51.01	-	51.01	51.01	-	51.01	
INNODIS CO., Ltd. ⁶		Korea	19.64	-	19.64	19.64	-	19.64	
SJ BIO MED Co., Ltd. ^{6,8}		Korea	14.39	-	14.39	14.39	-	14.39	
LSK Global Pharma Services Co., Ltd.		Korea	21.92	-	21.92	21.92	-	21.92	
Mirae Asset KT&G Investment Fund I		Korea	45.00	5.00	50.00	45.00	5.00	50.00	
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.		Korea	-	35.00	35.00	-	35.00	35.00	
KB KT&G New Growth Fund 1 ⁹		Korea	66.67	-	66.67	66.67	-	66.67	
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ¹⁰	Germany	51.35	-	51.35	51.35	-	51.35	
	Starfield Suwon Inc.	Korea	50.00	-	50.00	50.00	-	50.00	

21. Related Parties (cont'd)

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

²PT Trisakti Purwosari Makmur, the subsidiary of the Company merged with PT KT&G Indonesia, the subsidiary of the Company during the year ended December 31, 2023. The Company acquired 26,276,953 (6.56%) shares of PT Trisakti Purwosari Makmur in exchange for 104,986 (99.99%) shares of PT KT&G Indonesia's equity securities. The consolidated share of PT Trisakti Purwosari Makmur is 99.99%, including shares held by Renzoluc Pte., Ltd., the subsidiary of the Company, as of March 31, 2023.

³PT Trisakti Purwosari Makmur, the subsidiary of the Company acquired 217,372,000 shares (₩ 18,563 million) of PT TSPM FLAVOR AND FRAGRANCE through a capital contribution establishment method during the three-month ended March 31, 2024.

⁴The Company newly established 100.00% of KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP during the year ended 31, 2023, and the Company has classified the shares as investments in subsidiaries.

⁵The Company acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Company classified the shares as investments in subsidiaries. As the Company holds substantial decision-making right over related activities that has significant impact on the profit or losses of DNC Deogeun Co., Ltd. through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

⁶The Company has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the investee with its right to participate in the investee's Board of Directors meetings in accordance with the agreement with shareholders.

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

⁸As of March 31, 2024, liquidation procedures are in progress.

⁹Although the Company's percentage of ownership for the invested company exceeds 50%, the Company has classified the ownership as investment in associates as the Company does not have control over related activities and has significant influence through participating on the entity's investment decision-making authority.

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

21. Related Parties (cont'd)

(b) The Company conducts transactions with related parties, such as sales of goods and provision of services, etc. Details of transactions with related parties for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

① Sales and other income

(in millions of Korean won)

Type	Name of entity		March 31, 2024		March 31, 2023
Subsidiaries	Korea Ginseng Corporation	₩	2,912	₩	3,450
	Youngjin Pharm. Co., Ltd.		284		207
	Tae-A Industrial Co., Ltd.		209		131
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ^{1,2}		1,907		8,185
	KT&G Rus L.L.C. ¹		12,503		11,935
	KT&G USA Corporation ¹		5		-
	Cosmococ Co., Ltd.		26		12
	PT Trisakti Purwosari Makmur ¹		23,880		12,103
	SangSang Stay Inc.		1,508		1,228
	KT&G Global Rus L.L.C. ¹		1,961		1,079
	Gwacheon SangSang PFV. Inc		8,666		36,939
	KGCyebon Corporation		10		7
	KGC Life & Gin Co., Ltd.		12		13
	KT&G Kazakhstan LLP		-		1
	KT&G Global Kazakhstan LLP		960		-
	KT&G Taiwan Corporation		4,391		3,229
	DNC Deogeun Co., Ltd.		5,075		-
	Total	₩	64,309	₩	78,519

¹Excludes impairment loss of ₩ 312 million and ₩ 5,934 million in relation to the related parties for each of the three-month periods ended March 31, 2024 and 2023.

²The amount of sales related to OEM transactions presents the amount before adjustment considering receivables related to payment to subcontractors.

② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity		March 31, 2024		March 31, 2023
Subsidiaries	Korea Ginseng Corporation	₩	341	₩	349
	Youngjin Pharm. Co., Ltd.		217		222
	Tae-A Industrial Co., Ltd.		8,165		9,322
	KT&G Tuntun Mamulleri Sanyı ve Ticaret A.S. ¹		696		-
	Cosmococ Co., Ltd.		7		2
	SangSang Stay Inc.		14		74
	KGCyebon Corporation		211		396
Associate	INNODIS Co., Ltd.		74		49
Joint venture	Starfield Suwon Inc.		22		-
	Total	₩	9,747	₩	10,414

¹The amount of purchase related to OEM transactions presents the amount before adjustment considering payables related to payment to subcontractors.

21. Related Parties (cont'd)

(c) Details of account balances of receivables and payables with related parties as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2024		December 31, 2023	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 1,215	₩ 2,059	₩ 2,965	₩ 2,967
	Youngjin Pharm. Co., Ltd. ²	4,950	50	4,903	50
	Tae-A Industrial Co., Ltd.	-	9,883	4	6,423
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ^{1,3}	34,181	714	34,655	-
	Korea Tabacos do Brasil Ltda. ^{1,2}	122	-	122	-
	KT&G Pars ^{1,2}	44,526	-	44,526	-
	KT&G Rus L.L.C. ¹	110,966	-	98,785	-
	KT&G USA Corporation ¹	53,098	337	53,094	322
	Cosmocos Co., Ltd.	25	-	9	-
	SangSang Stay Inc.	3	-	28	-
	PT Trisakti Purwosari Makmur ^{1,2}	434,652	-	404,956	-
	KT&G Global Rus L.L.C. ¹	9,777	-	7,322	-
	Gwacheon SangSang PFV. Inc ²	8,541	2,097	57,763	2,222
	KT&G Taiwan Corporation	3,386	-	1,684	-
	KT&G Kazakhstan LLP	161	-	380	-
	KT&G Global Kazakhstan LLP ²	10,561	-	12,244	-
	KGCyebon Corporation	11	7,977	3	7,747
	KGC Life & Gin Co., Ltd.	-	-	1	-
	DNC Deogeun Co., Ltd. ²	5,075	-	-	-
	Associate	AndaStation Professional Investment Private REIT No.1	-	-	481
Starfield Suwon Inc.		-	10	8	37
Joint venture	Total	₩ 721,250	₩ 23,127	₩ 723,933	₩ 19,768

¹Presented in total amount before deducting loss allowance of ₩ 145,425 million and ₩ 145,113 million as of March 31, 2024 and as of December 31, 2023.

²Includes loans and accounts receivable to related parties.

³The amount of receivables and payables related to OEM transactions presents the amount before adjustment considering receivables and payables related to the payment to subcontractors.

21. Related Parties (cont'd)

(d) Details of purchase and sale of property, plant and equipment and right-of-use assets with related parties for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2024			March 31, 2023
		Purchase of Right-of-use assets	Purchase of property, plant and equipment	Sale of property, plant and equipment	Sale of property, plant and equipment
Subsidiaries	PT Trisakti Purwosari Makmur	₩ -	₩ 372	₩ -	₩ 3,120
	KGCyebon Corporation	₩ 392	-	₩ 764	-
	Total	₩ 392	₩ 372	₩ 764	₩ 3,120

(e) Details of fund transactions with related parties for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2024		March 31, 2023		Loan of Fund
		Equity investment	Repayment of lease liabilities	Equity investment	Repayment of lease liabilities	
Subsidiaries	SangSang Stay Inc.	₩ -	₩ -	₩ 30,000	₩ -	₩ -
	Youngjin Pharm. Co., Ltd.	-	-	-	-	₩ 4,500
	KGCyebon Corporation	-	₩ 161	-	₩ 153	-
	PT Trisakti Purwosari Makmur	-	-	-	-	₩ 58,627
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩ 59,692	-	₩ 25,623	-	-
	KT&G Global Kazakhstan LLP	-	-	₩ 18,510	-	-
	KT&G Kazakhstan LLP	₩ 52,352	-	₩ 16,188	-	-
	DNC Deogeun Co., Ltd.	-	-	₩ 35,315	-	-
	Edn the pine central Seocho Co., Ltd.	₩ 1,623	-	-	-	-
	Starfield Suwon Inc.	₩ 15,000	-	-	-	-
Total	₩ 128,667	₩ 161	₩ 125,636	₩ 153	₩ 63,127	

(f) As of March 31, 2024, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan (see Note 23 (c)).

(g) During the three-month period ended March 31, 2024, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd. and Cosmococ Co., Ltd., to provide operating funds, debt repayment and other management-related business support.

(h) The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. 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 Inc's operation is approved. In the event that the Company or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

(i) The Company has entered into a contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of March 31, 2024, 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.

21. Related Parties (cont'd)

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

(k) As of March 31, 2024, the Company has entered into a capital call agreement in relations to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

(l) The Company has entered into a capital contribution agreement in relations to Mirae Asset KT&G Investment Fund I and KB KT&G New Growth Fund 1, with the ceiling of ₩ 28,000 million. As of March 31, 2024, the remaining contribution amount is ₩ 16,000 million, and the detailed timeline for contribution is yet to be determined (see Note 23 (d)).

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

(n) The Company has entered into an agreement to extend the maturity of loans to PT Trisakti Purwosari Makmur worth at USD 100,816 thousand, during the year ended December 31, 2023.

(o) As of March 31, 2024, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Notes 7 and 23 (c)).

(p) The Company was ordered to pay a sewage fee of ₩ 6,350 million for 1 block of Daeyupyeong District by Suwon City, and Starfield Suwon Inc. completed the payment during the year ended December 31, 2023 (see Note 23 (d)).

(q) Key management personnel compensation for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Long (short)-term employee benefits	₩ 7,702	₩ 5,131
Retirement benefits	617	616
Total	<u>₩ 8,319</u>	<u>₩ 5,747</u>

22. Risk Management and Fair Value of Financial Instruments

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

(a) Market risk

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

① Currency risk

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

② Price risk

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

22. Risk Management and Fair Value of Financial Instruments (cont'd)**③ Interest rate risk**

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Company as of March 31, 2024, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

(b) Credit risk

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

As of March 31, 2024 and December 31, 2023, the carrying amount of financial assets is the maximum exposure to credit risk.

(c) Liquidity risk

The Company is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash etc., or other financial assets. To manage liquidity risk, the management of the Company establishes short and mid-to-long term financial management plan and continuously analyzes and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Company determines that the financial liabilities are redeemable through cash flows from operating activities and cash inflows from financial assets.

22. Risk Management and Fair Value of Financial Instruments (cont'd)

(d) Details of the carrying amounts of each category of financial instrument as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	March 31, 2024	December 31, 2023
Financial assets:		
Financial assets measured at fair value through profit or loss	₩ 861,929	₩ 680,149
Financial assets measured at fair value through other comprehensive income or loss	207,957	182,106
Derivative assets	522	7,751
Financial assets measured at amortized cost		
Cash and cash equivalents	193,014	210,392
Other financial assets	186,406	186,443
Trade and other receivables	1,645,244	1,688,653
Long-term deposits	1,533,267	1,479,737
Subtotal	3,557,931	3,565,225
Total financial assets	₩ 4,628,339	₩ 4,435,231
Financial liabilities:		
Derivative liabilities	₩ 4,857	-
Financial liabilities measured at amortized cost		
Short-term borrowings	50,000	-
Bonds	299,248	299,165
Trade and other payables	1,650,893	1,097,480
Lease liabilities	22,587	23,939
Subtotal	2,022,728	1,420,584
Total financial liabilities	₩ 2,027,585	₩ 1,420,584

(e) When measuring the fair value of an asset or a liability, the Company uses the observable inputs in the market as much as 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

22. Risk Management and Fair Value of Financial Instruments (cont'd)

Details of the fair value of financial instruments measured by each hierarchy as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	March 31, 2024			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩ 861,929	₩ -	₩ 483,747	₩ 378,182
Financial assets measured at fair value through other comprehensive income or loss	207,957	198,957	-	9,000
Derivative assets	522	-	522	-
Total financial assets	₩ 1,070,408	₩ 198,957	₩ 484,269	₩ 387,182
Derivative liabilities	₩ 4,857	₩ -	₩ 4,857	-

(in millions of Korean won)

	December 31, 2023			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩ 680,149	₩ -	₩ 299,639	₩ 380,510
Financial assets measured at fair value through other comprehensive income or loss	182,106	173,106	-	9,000
Derivative assets	7,751	-	7,751	-
Total financial assets	₩ 870,006	₩ 173,106	₩ 307,390	₩ 389,510

There is no movement between the levels of fair value hierarchy during the three-month period ended March 31, 2024 and the year ended December 31, 2023.

As of March 31, 2024 and December 31, 2023, the fair value of investment trust's equity securities classified as financial assets 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, and was classified as Level 3 fair value based on the inputs used in the valuation technique.

22. Risk Management and Fair Value of Financial Instruments (cont'd)

Changes in Level 3 fair value for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024		March 31, 2023	
Beginning balance	₩	389,510	₩	360,125
Acquisition		10,554		245
Disposal		(18,134)		(1,530)
Changes in fair value		5,252		1,509
Ending balance	₩	387,182	₩	360,349

(f) Details of net gain or loss by each financial instrument category for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 22,151	₩ -	₩ 22,151
Dividend income	785	2,104	-	-	-	2,889
Gain or loss on valuation	6,975	-	(13,018)	-	-	(6,043)
Gain on lease contract adjustments	-	-	-	-	21	21
Interest expense	-	-	-	-	(4,106)	(4,106)
Impairment loss	-	-	-	(6,824)	-	(6,824)
Total	₩ 7,760	₩ 2,104	₩ (13,018)	₩ 15,327	₩ (4,085)	₩ 8,088
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ 25,851	₩ -	₩ -	₩ -	₩ 25,851

(in millions of Korean won)

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

23. Contingent Liabilities and Commitments

(a) Litigation cases

As of March 31, 2024, the Company has 6 cases of pending litigations under progress where the Company is the defendant and the litigation amounts are ₩ 55,222 million. It is not possible to reasonably predict the impact of the outcome of pending litigation on the separate financial statements of the Company as of March 31, 2024.

(b) Commitments with financial institutions

Details of the Company's major arrangements with financial institutions as of March 31, 2024 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank	USD	200,000	77,419
Derivatives trading ¹	KB Kookmin Bank and five others	USD	213,738	8,511
Limit loan	NH Bank and three others	KRW	800,000	50,000

¹Derivatives are composed of foreign exchange forward contracts and are held for trading as of March 31, 2024.

As of March 31, 2024, the Company has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 114,973 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Company as of March 31, 2024 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	237,581	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	9,776	License guarantee, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of March 31, 2024, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

23. Contingent Liabilities and Commitments (cont'd)

Details of payment guarantees provided by the Company to other parties as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	March 31, 2024		December 31, 2023		Details of guarantee
		Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	₩ 76,720	₩ 656	₩ 76,720	₩ 9,160	Loan guarantee for the intermediate payment of off-plan sales construction ¹
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	8,000	513	8,000	515	

¹The amount guaranteed by Korea Housing & Urban Guarantee Corporation (80%) from the guarantee limit as described in the intermediate payment loan agreement is excluded from the amount.

Details of assets pledged as collaterals as of March 31, 2024 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment properties	₩ 359,727	₩ 22,221	₩ 25,525	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts
Other financial assets and other receivables	5,203	-	5,203	Korea Land & Housing Corporation	Establishment of a pledge for property development
	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 measured at fair value through profit or loss	4,980	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
	5,306	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. ¹
Total	₩ 376,413	₩ 22,818	₩ 42,631		

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

Details of restricted financial assets as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

		March 31, 2024	December 31, 2023
Other financial assets and other receivables	Establishment of a pledge for property development	₩ 5,203	₩ 5,203
	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	2	2
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	600
Financial assets measured at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	4,980	4,960
	Total	₩ 111,382	₩ 111,362

The contracted amount for the acquisition of major items of property, plant and equipment that have not yet been incurred as of March 31, 2024, is ₩ 226,364 million.

23. Contingent Liabilities and Commitments (cont'd)

(d) Others

Each year, the Company deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Company inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Company, in whole, after 25 years from each date of deposit. The Company recognized ₩ 1,533,267 million in long-term deposits for MSA Escrow Fund as of March 31, 2024 (as of December 31, 2023: ₩ 1,479,737 million), and they consist of US Treasury bond, and demand deposits.

The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. 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 Inc's operation is approved. In the event that the Company or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

The Company was ordered to pay a sewage fee of ₩ 6,350 million for 1 block of Daeyupyong District by Suwon City, and Starfield Suwon Inc. completed the payment during the year ended December 31, 2023.

As of March 31, 2024, the Company has entered into a capital call agreement in relations to the Company's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

The Company has entered into a capital contribution agreement in relations to the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1, Smilegate New Deal Fund, etc., with the ceiling of ₩ 154,623 million. As of March 31, 2024, the remaining contribution amount is ₩ 52,973 million, and the detailed timeline for contribution is yet to be determined.

The Company has entered into a contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of March 31, 2024, 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.

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

23. Contingent Liabilities and Commitments (cont'd)

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

As of March 31, 2024, the Company is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (ePyeonhansesang Daejeon station Centum Vista, etc.) proceeded by the Company.

The Company has obligated to return infrastructure such as roads and neighbourhood parks to Suwon City for free related to sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district was completed during the year ended December 31, 2023, additional expected costs due to fulfilment of infrastructure-related obligations are being reflected in construction costs.

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

In relation to the sales project of Digital Empire Pyeongchon Biz Valley and ePyeonhansesang Pyeongchon Urban Valley, the Company has an obligation to donate park and roads located in the district and a portion of the facilities built by the Company to Anyang City.

As of March 31, 2024, in relation to the Daejeon station Centum Vista sales project, the Company has agreed with the constructor (DL Construction Co., Ltd.) to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of ₩ 6,074 million loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.

During the year ended December 31, 2022, the Company has reached agreement with Bando Engineering & Construction Co., Ltd. to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, under the agreement. For prompting the construction, the Company also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until the point of completion. The construction was completed during the year ended December 31, 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of March 31, 2024.

During the three-month period ended March 31, 2024, the Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd. and Cosmococ Co., Ltd., to provide operating funds, debt repayment and other management-related business support.

23. Contingent Liabilities and Commitments (cont'd)

As of March 31, 2024, the Company and KT&G USA Corporation received a notification from the US Department of Justice (“DOJ”) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of March 31, 2024.

The Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of March 31, 2024, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Company's business in Russia and its financial position therein cannot be reasonably estimated as of March 31, 2024.

24. Cash Flows

Cash generated from operations for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	March 31, 2024		March 31, 2023	
Profit for the three-month period ended March 31	₩	278,143	₩	255,710
Adjustments:				
Employee welfare		1,392		885
Retirement benefits		7,074		5,806
Loss on valuation or obsolescence of inventories		2,606		601
Depreciation		35,150		34,556
Amortization		5,703		4,714
Impairment loss on trade and other receivables		6,824		7,894
Loss on foreign currency translation		3,064		2,732
Loss on valuation of derivatives		13,053		9,398
Loss on disposal of property, plant and equipment		10		14
Loss on disposal of intangible assets		4		-
Loss on impairment of intangible assets		41		63
Loss on disposal of investment properties		55		59
Loss on impairment of investments in subsidiaries		-		266
Other expenses, etc.		749		311
Finance cost		7,436		10,956
Stock compensation expense		192		-
Income tax expense		67,154		99,630
Gain on foreign currency translation		(103,072)		(62,502)
Gain on valuation of derivatives		(35)		(3,805)
Gain on disposal of property, plant and equipment		(75)		(1,391)
Gain on disposal of investment properties		(2)		-
Gain on disposal of investments in associates		(4,876)		(2,622)
Other income, etc.		(1,876)		(1,812)
Finance income		(48,961)		(83,511)
Changes in working capital:				
Decrease (increase) in trade and other receivables		31,128		(31,219)
Decrease (increase) in derivatives		(933)		24,081
Decrease (increase) in inventories		2,749		(20,468)
Increase in accrued tobacco excise and other taxes		(7,738)		(45,148)
Increase in advance payments		(8,010)		(682)
Decrease (increase) in prepaid expenses		(1,220)		64
Increase (decrease) in trade and other payables		35,664		(429,861)
Increase in advance receipts		963		5,905
Increase (decrease) in tobacco excise and other taxes payable		(30,445)		62,380
Increase (decrease) in net defined benefit liabilities (assets)		(8,463)		1,370
Cash generated from operations	₩	283,448	₩	(155,626)

25. Events After the Reporting Period

The Company sold AndaStation Professional Investment Private REIT No.1 on April 12, 2024.

The Company issued KT&G Unsecured Bonds (3rd-1st to 3rd-3rd) amounting to ₩ 300 billion for the purpose of securing facility funds on April 25, 2024.

A case of lawsuit for job invention compensation has been filed against the Company on April 24, 2024, with a litigation amount of ₩ 100 billion. As of March 31, 2024, it is not possible to reasonably estimate the final outcome of the pending lawsuit and its potential impact on the Company's separate financial statements.