



KT&G Corporation and its subsidiaries

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

Table of contents

Report on review of interim consolidated financial statements	
Interim consolidated financial statements	Page
Interim consolidated statements of financial position	1
Interim consolidated statements of comprehensive income	3
Interim consolidated statements of changes in equity	4
Interim consolidated statements of cash flows	5
Notes to the interim consolidated financial statements	6

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

The Shareholders and Board of Directors KT&G Corporation

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the interim consolidated statement of financial position as of March 31, 2024, and the related interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated 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 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, 2023, 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 4, 2024 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2023, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated 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 consolidated financial statements and may result in modifications to this review report.

KT&G Corporation and Its Subsidiaries

Interim consolidated financial statements

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

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

Kyung-Man Bang
Chief Executive Officer
KT&G Corporation

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KT&G Corporation and its subsidiaries
Interim consolidated 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	21,22	₩	1,044,967	₩	1,031,953
Current other financial assets	21,22		361,246		294,103
Current financial assets at fair value through profit or loss	21		517,157		342,933
Trade and other receivables	5,15,20,21		1,427,491		1,506,539
Derivative assets	21,22		522		7,751
Inventories	6		2,897,065		2,763,769
Refund assets and others			789		820
Accrued tobacco excise and other taxes			412,582		324,366
Advanced payments	22		144,412		79,451
Prepaid expenses			66,876		66,689
Total current assets			6,873,107		6,418,374
Non-current assets					
Long-term other financial assets	21,22		84,463		84,462
Long-term deposits in MSA Escrow Fund	21,22		1,533,267		1,479,737
Long-term financial assets measured at fair value through profit or loss	21,22		351,187		344,455
Long-term trade and other receivables	5,21		153,313		149,670
Long-term financial assets measured at fair value through other comprehensive income or loss	21,22		245,879		233,058
Investments in associates and joint ventures	4,7,20,22		491,534		471,327
Property, plant and equipment	8,22		2,154,620		2,096,467
Intangible assets	9		176,794		175,028
Investment properties	10,22		882,152		1,018,434
Right-of-use assets	11		47,842		49,029
Long-term advance payments	22		105,738		105,725
Long-term prepaid expenses			13,495		12,663
Deferred tax assets	19		44,569		74,949
Net defined benefit assets	13		57,344		59,074
Total non-current assets			6,342,197		6,354,078
Total assets		₩	13,215,304	₩	12,772,452
Liabilities					
Current liabilities					
Short-term borrowings	12,21,22	₩	112,280	₩	61,576
Current portion of long-term borrowings	12,21,22		37,561		27,521
Trade and other payables	20,21,22		2,191,999		1,684,673
Current lease liabilities	21		18,970		18,702
Derivative liabilities	21,22		4,857		-
Advanced receipts	15		16,081		17,203
Current refund liabilities and provisions	14,22		32,870		33,213
Current tax liabilities	19		160,648		191,016
Tobacco excise and other taxes payables			676,371		638,510
Total current liabilities			3,251,637		2,672,414
Non-current liabilities					
Long-term borrowings and bonds	12,21,22		463,305		469,813
Long-term trade and other payables	21,22		66,163		58,390
Long-term lease liabilities	21		25,835		27,776
Long-term advance receipts	15		8,133		4,177
Net defined benefit liabilities	13		37,715		36,038
Long-term refund liabilities and provisions	14,22		5,219		5,117
Deferred tax liabilities	19		204,562		185,971
Non-controlling interests liabilities	21		9,243		17,821
Total non-current liabilities			820,175		805,103
Total liabilities		₩	4,071,812	₩	3,477,517

KT&G Corporation and its subsidiaries
Interim consolidated 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		4,642	4,946
Treasury shares		(1,030,541)	(1,236,933)
Gain on sale of treasury shares		529,029	528,894
Reserves		7,136,373	7,230,300
Retained earnings		1,429,225	1,692,239
Equity attributable to owners of the Parent Company		<u>9,023,687</u>	<u>9,174,405</u>
Non-controlling interest		<u>119,805</u>	<u>120,530</u>
Total equity	₩	<u>9,143,492</u>	₩ <u>9,294,935</u>
Total liabilities and equity	₩	<u>13,215,304</u>	₩ <u>12,772,452</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 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
Continuing operations			
Sales	4,15 W	1,292,261 W	1,395,670
Cost of sales		(648,053)	(687,376)
Gross profit		644,208	708,294
Selling, general and administrative expense	16,20	(407,638)	(391,747)
Operating profit	4	236,570	316,547
Other income	17,21	143,772	96,072
Other expense	17,20,21	(41,284)	(33,780)
Finance income	18,20,21	39,982	49,218
Finance costs	18,21	(12,954)	(31,798)
Share of net profit (loss) of associates and joint ventures	7	5,092	(1,758)
Loss arising from net monetary assets		(3,603)	(1,857)
Profit before income tax		367,575	392,644
Income tax expense	19	(79,923)	(115,789)
Profit from continuing operations		287,652	276,855
Discontinued operations			
Loss from discontinued operations	24	(2,039)	(2,627)
Profit for the period	W	285,613	W 274,228
Other comprehensive income (loss) for the period after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	W	(219) W	(1,305)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	21	9,006	4,587
Equity changes in equity method	7	(8)	4
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations		5,121	16,404
Capital changes in equity method	7	93	-
		13,993	19,690
Total comprehensive income for the period	W	299,606	W 293,918
Profit for the period is attributable to:			
Owners of the Parent Company			
Profit from continuing operations	W	288,385 W	273,129
Loss from discontinued operations	24	(2,039)	(2,627)
Profit attributable to owners of the Parent Company		286,346	270,502
Non-controlling interests			
Profit (loss) from continuing operations		(733)	3,726
Profit (loss) from discontinued operations	24	-	-
Profit (loss) attributable to non-controlling interests		(733)	3,726
Total	W	285,613	W 274,228
Total comprehensive income (loss) for the period attributable to:			
Owners of the Parent Company			
Profit from continuing operations	W	304,283 W	293,836
Loss from discontinued operations	24	(3,952)	(3,682)
Total comprehensive income attributable to owners of the Parent Company		300,331	290,154
Non-controlling interests			
Profit (loss) from continuing operations		(725)	3,764
Profit (loss) from discontinued operations	24	-	-
Total comprehensive income (loss) attributable to non-controlling interests		(725)	3,764
Total	W	299,606	W 293,918
Earnings (losses) per share			
Basic and diluted			
From continuing operations	W	2,506 W	2,349
From discontinued operations		(18)	(23)
	W	2,488	W 2,326

"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 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	Owners of the parent	Non-controlling interest	Total equity
Balance as of January 1, 2023	954,959	4,498	(1,236,933)	528,894	6,812,286	2,251,940	9,315,644	42,936	9,358,580
Total comprehensive income (loss) for the period									
Profit for the period									
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					4,587				4,587
Exchange differences on translating foreign operations					16,406			(2)	16,404
Equity changes in equity method					4				4
Subtotal other comprehensive income (loss) for the period					20,997			38	19,690
Total comprehensive income (loss) for the period					20,997			3,764	293,918
Transactions with owners of the Parent Company:									
Dividends paid						(581,400)	(581,400)		(581,400)
Transfer to other reserve					407,601	(407,601)			
Changes in non-controlling interest								57,858	57,858
Total Transactions with owners of the Company					407,601	(989,001)			(523,542)
Balance as of March 31, 2023	954,959	4,498	(1,236,933)	528,894	7,240,884	1,532,095	9,024,398	104,558	9,128,956
Balance as of January 1, 2024	954,959	4,946	(1,236,933)	528,894	7,230,300	1,692,239	9,174,405	120,530	9,294,935
Total comprehensive income (loss) for the period									
Profit (loss) for the period									
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					9,006				9,006
Exchange differences on translating foreign operations					5,122			(1)	5,121
Equity changes in equity method					85				85
Subtotal other comprehensive income (loss) for the period					14,213			8	13,993
Total comprehensive income (loss) for the period					14,213			(725)	299,006
Transactions with owners of the Parent Company:									
Dividends paid						(451,240)	(451,240)		(451,240)
Transfer from other reserve					(108,140)	108,140			
Retirement of treasury shares			206,032			(206,032)			
Share options		(304)	360				191		191
Total Transactions with owners of the Company		(304)	206,392		(108,140)	(548,132)	(451,049)		(451,049)
Balance as of March 31, 2024	954,959	4,642	(1,030,541)	529,029	7,136,373	1,429,225	9,023,687	119,805	9,143,492

"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 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	₩	347,187	₩ (150,420)
Cash generated from operations	23	411,025	(61,522)
Income taxes paid		(63,838)	(88,898)
Net cash flows provided by (used in) investing activities		(384,943)	80,161
Interest received		37,604	21,767
Dividends received		3,325	4,047
Decrease in other financial assets		72,036	93,340
Decrease in current financial assets measured at fair value through profit or loss		18,133	108,748
Decrease in long-term financial assets measured at fair value through profit or loss		1,407	1,187
Disposal of property, plant and equipment		6,036	2,400
Disposal of intangible assets		11	-
Disposal of investment properties		5,300	3,350
Collection of loans		5,844	5,112
Collection of guarantee deposits		462	82
Increase in other financial assets		(139,137)	(61,933)
Increase in current financial assets measured at fair value through profit or loss		(182,967)	(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		(163,864)	(95,791)
Acquisition of intangible assets		(9,398)	(14,150)
Acquisition of investment properties		(2,435)	(2,811)
Acquisition of right-of-use assets		(662)	(186)
Acquisition of investments in associates and joint ventures		(15,000)	-
Increase in loans		(10,764)	(5,273)
Increase in guarantee deposits		(320)	(44)
Net cash inflows due to changes in scope of consolidation		-	21,035
Net cash flows provided by (used in) financing activities		27,831	(3,768)
Interest paid		(17,178)	(3,787)
Repayment of lease liabilities		(6,088)	(5,902)
Repayment of borrowings		(8,399)	(291,260)
Proceeds in borrowings		59,496	297,181
Net decrease in cash and cash equivalents		(9,925)	(74,027)
Cash and cash equivalents at the beginning of the period		1,031,953	1,401,018
Effect of exchange rate fluctuation on cash and cash equivalents		22,939	6,392
Cash and cash equivalents at the end of the period	₩	<u>1,044,967</u>	₩ <u>1,333,383</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 March 31, 2024, the Parent 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 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 monopoly business of red ginseng and tobacco, the Parent 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 Parent 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 Parent Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Parent Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

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

1.2 Consolidated Subsidiaries

Details of consolidated subsidiaries as of March 31, 2024 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) ¹	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	March 31, 2024	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	March 31, 2024	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	March 31, 2024	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	100.00	March 31, 2024	Turkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	March 31, 2024	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	March 31, 2024	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	March 31, 2024	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	March 31, 2024	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	March 31, 2024	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	March 31, 2024	Singapore
	SangSang Stay Inc.	Hotel	100.00	March 31, 2024	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	March 31, 2024	Russia
	Gwacheon SangSang PFV Inc.	Real estate development and sales business	51.00	March 31, 2024	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	March 31, 2024	Taiwan
	Mastern No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	March 31, 2024	Korea
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	March 31, 2024	Kazakhstan
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	March 31, 2024	Kazakhstan
	DNC Deogeun Co., Ltd. ²	Real estate development and sales business	38.25	March 31, 2024	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	March 31, 2024	Korea
	Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	March 31, 2024
KGC Life & Gin Co., Ltd.		Selling ginseng, etc.	100.00	March 31, 2024	Korea
Jilin Hanzheng Ginseng Co., Ltd.		Manufacturing and selling ginseng, etc.	100.00	March 31, 2024	China
Cheong Kwan Jang Taiwan Corporation		Selling ginseng, etc.	100.00	March 31, 2024	Taiwan
Korean Red Ginseng Corp., Inc.		Selling ginseng, etc.	100.00	March 31, 2024	USA
Korea Ginseng (China) Corp.		Selling ginseng, etc.	100.00	March 31, 2024	China
Korea Ginseng Corp. Japan		Selling ginseng, etc.	100.00	March 31, 2024	Japan
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	March 31, 2024	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur ³	Manufacturing and selling tobaccos	99.99	March 31, 2024	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	March 31, 2024	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Selling tobaccos	99.99	March 31, 2024	Indonesia

¹ The percentage of ownership, shown above, is on a consolidated basis.

² The Parent 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 voting rights of DNC Deogeun Co., Ltd. The Parent Company classified the shares as investments in subsidiaries as the Parent Company holds substantial decision-making right over related activities that has significant impact on the profit or losses of the DNC Deogeun Co., Ltd. through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

³ A portion of PT Trisakti Purwosari Makmur is held by the Parent Company.

1.2 Consolidated Subsidiaries (cont'd)

During the three-month period ended March 31, 2024, the Parent 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 Parent 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 ₩ 19,722 million of KT&G Kazakhstan LLP.

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

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

During the year ended December 31, 2023, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, set the merger date on 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. PT KT&G Indonesia, a subsidiary of the Parent Company, was absorbed and merged. There is no transaction gain or loss recognized as the transactions under the common control are accounted for based on the book value and assets, liabilities and equity are recognized and derecognized at the book value of the date of merger.

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 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 consolidated 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.

(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.

2. Material Accounting Policies (cont'd)

(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 consolidated financial statements are consistent with those of the consolidated 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 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, 2023, except for the estimates used to determine the income tax expense.

4. Operating Segment

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

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

(b) Details of segment information on sales and operating profit for each of the three-month periods ended March 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	March 31, 2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 922,723	₩ 334,717	₩ 48,740	₩ 83,709	₩ 1,389,889	₩ (97,628)	₩ 1,292,261
Intersegment sales	(66,113)	(26,297)	(3,575)	(1,643)	(97,628)	97,628	-
External sales	856,610	308,420	45,165	82,066	1,292,261	-	1,292,261
Operating profit (loss) ¹	214,102	17,453	3,622	5,149	240,326	(3,756)	236,570
Depreciation and amortization	41,687	11,771	7,789	2,668	63,915	(3,100)	60,815

¹Other income or expenses item not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

(in millions of Korean won)

	March 31, 2023						
	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated	
Total segment sales	₩ 911,105	₩ 426,058	₩ 96,762	₩ 71,579	₩ 1,505,504	₩ (109,834)	₩ 1,395,670
Intersegment sales	(53,489)	(41,961)	(12,902)	(1,482)	(109,834)	109,834	-
External sales	857,616	384,097	83,860	70,097	1,395,670	-	1,395,670
Operating profit (loss) ¹	230,431	50,739	28,811	737	310,718	5,829	316,547
Depreciation and amortization	39,147	12,217	7,467	2,715	61,546	(2,422)	59,124

¹Other income or expenses item not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

4. Operating Segment (cont'd)

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

(in millions of Korean won)

		<u>March 31, 2024</u>	<u>March 31, 2023</u>
Revenue recognized at a point in time:			
Tobacco	Wholesale and retail	₩ 845,455	₩ 853,244
	Direct sales	11,155	4,372
Ginseng	Wholesale and retail	151,864	201,848
	Direct sales	156,556	182,249
Others	Wholesale and retail	81,459	69,475
	Direct sales	607	622
Real estate	Sales	6,747	-
	Subtotal	<u>1,253,843</u>	<u>1,311,810</u>
Revenue recognized over time:			
Real estate	Sales	12,591	59,750
	Rental	25,827	24,110
	Subtotal	<u>38,418</u>	<u>83,860</u>
	Total	<u>₩ 1,292,261</u>	<u>₩ 1,395,670</u>

(d) Segment information on assets and liabilities as of March 31, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

		<u>March 31, 2024</u>						
		<u>Tobacco</u>	<u>Ginseng</u>	<u>Real estate</u>	<u>Others</u>	<u>Segment total</u>	<u>Adjustments</u>	<u>Consolidated</u>
Assets:								
Segment assets	₩	7,439,476	₩ 2,049,081	₩ 1,370,151	₩ 246,690	₩ 11,105,398	₩ (2,888,076)	₩ 8,217,322
Investments in associates and joint ventures		-	-	476,338	15,196	491,534	-	491,534
	Subtotal	<u>₩ 7,439,476</u>	<u>₩ 2,049,081</u>	<u>₩ 1,846,489</u>	<u>₩ 261,886</u>	<u>₩ 11,596,932</u>	<u>₩ (2,888,076)</u>	<u>₩ 8,708,856</u>
Common assets								4,506,448
Total assets								<u>₩ 13,215,304</u>
Acquisition of non-current assets								
	₩	105,300	₩ 9,503	₩ 663	₩ 4,536	₩ 120,002	₩ (5,032)	₩ 114,970
Liabilities:								
Segment liabilities	₩	2,830,748	₩ 180,463	₩ 64,459	₩ 97,709	₩ 3,173,379	₩ (569,940)	₩ 2,603,439
Common liabilities								1,468,373
Total liabilities								<u>₩ 4,071,812</u>

(in millions of Korean won)

		<u>December 31, 2023</u>						
		<u>Tobacco</u>	<u>Ginseng</u>	<u>Real estate</u>	<u>Others</u>	<u>Segment total</u>	<u>Adjustments</u>	<u>Consolidated</u>
Assets:								
Segment assets	₩	7,021,732	₩ 2,227,057	₩ 1,373,604	₩ 243,090	₩ 10,865,483	₩ (2,757,145)	₩ 8,108,338
Investments in associates and joint ventures		-	-	453,340	17,987	471,327	-	471,327
	Subtotal	<u>₩ 7,021,732</u>	<u>₩ 2,227,057</u>	<u>₩ 1,826,944</u>	<u>₩ 261,077</u>	<u>₩ 11,336,810</u>	<u>₩ (2,757,145)</u>	<u>₩ 8,579,665</u>
Common assets								4,192,787
Total assets								<u>₩ 12,772,452</u>
Acquisition of non-current assets								
	₩	476,431	₩ 80,202	₩ 4,747	₩ 13,665	₩ 575,045	₩ (24,528)	₩ 550,517
Liabilities:								
Segment liabilities	₩	2,631,990	₩ 259,630	₩ 51,775	₩ 91,463	₩ 3,034,858	₩ (532,461)	₩ 2,502,397
Common liabilities								975,120
Total liabilities								<u>₩ 3,477,517</u>

4. Operating Segment (cont'd)

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

(e) Regional information by customer's location 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		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 864,339	₩ 427,922	₩ 1,292,261	₩ 977,165	₩ 418,505	₩ 1,395,670
Non-current assets	3,012,586	248,822	3,261,408	3,005,627	125,317	3,130,944

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

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

5. Trade and Other Receivables

(a) Details of trade and other receivables as of 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
Trade receivables	₩ 1,231,506	₩ 7,705	₩ 1,328,580	₩ -
Loans	58,424	93,615	58,989	87,727
Other receivables	21,118	941	30,899	2,634
Guarantee deposits	100,751	50,881	72,146	59,201
Accrued income	15,692	171	15,925	108
Total	₩ 1,427,491	₩ 153,313	₩ 1,506,539	₩ 149,670

(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:

(in millions of Korean won)

	March 31, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,501,674	₩ 153,801	₩ 1,570,234	₩ 150,147
Allowances:				
Trade receivables	(70,031)	-	(59,446)	-
Other receivables	(4,152)	(488)	(4,249)	(477)
Subtotal	(74,183)	(488)	(63,695)	(477)
Net trade and other receivables	₩ 1,427,491	₩ 153,313	₩ 1,506,539	₩ 149,670

(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:

(in millions of Korean won)

	March 31, 2024	March 31, 2023
Beginning balance	₩ 64,172	₩ 79,600
Impairment loss (reversal of impairment loss)	11,109	(2,604)
Write off	(448)	-
Net exchange difference and others	(162)	430
Ending balance	₩ 74,671	₩ 77,426

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 consolidated 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	₩ 43,832	₩ (4,374)	₩ 39,458	₩ 69,582	₩ (1,963)	₩ 67,619
Finished goods	384,931	(41,565)	343,366	352,918	(39,634)	313,284
Half-finished goods and work in progress	982,952	(2,504)	980,448	1,043,034	(3,032)	1,040,002
Raw materials	979,117	(3,958)	975,159	900,339	(5,084)	895,255
Supplies	73,640	-	73,640	69,117	-	69,117
By-products	9,591	-	9,591	9,328	-	9,328
Buildings under construction	27,179	-	27,179	20,938	-	20,938
Completed buildings	125,487	-	125,487	129,941	-	129,941
Sites for construction of real estate	255,489	-	255,489	129,633	-	129,633
Goods in transit	67,248	-	67,248	88,652	-	88,652
Total	₩ 2,949,466	₩ (52,401)	₩ 2,897,065	₩ 2,813,482	₩ (49,713)	₩ 2,763,769

(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) on valuation of inventories	₩ 823	₩ (1,389)
Loss on obsolescence of inventories	3,700	3,176
Other expense:		
Loss on obsolescence of inventories	36	23
Total	₩ 4,559	₩ 1,810

7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures 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	₩ 471,327	₩ 274,534
Acquisition	15,000	-
Shares of net profit or loss	5,092	(1,757)
Changes in Equity	115	5
Reclassification and Others ¹	-	105
Ending balance	₩ 491,534	₩ 272,887

¹₩ 105 million effect of changes in scope of consolidation is include for the three-month period ended March 31, 2023.

8. 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>		<u>March 31, 2024</u>		<u>March 31, 2023</u>
Beginning balance	₩	2,096,467	₩	1,837,041
Acquisition ¹		97,430		43,613
Disposal/Impairment		(781)		(606)
Depreciation		(40,241)		(40,006)
Reclassification, etc. ²		1,745		6,800
Ending balance	₩	<u>2,154,620</u>	₩	<u>1,846,842</u>

¹During the three-month period ended March 31, 2024, the Group has capitalized borrowings costs amounting to ₩ 2,158 million are included for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4%~5.67%.

²Consists of ₩ 3,636 million of transfers to investment properties for the three-month period ended March 31, 2024, and ₩ 171 million of transfers from investment properties and ₩ 71 million of transfers to intangible assets for the three-month period ended March 31, 2023.

9. 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>		<u>March 31, 2024</u>		<u>March 31, 2023</u>
Beginning balance	₩	175,028	₩	167,851
Acquisition		9,433		11,582
Disposal/Impairment		(210)		(104)
Amortization		(7,629)		(6,960)
Reclassification, etc. ¹		172		1,029
Ending balance	₩	<u>176,794</u>	₩	<u>173,398</u>

¹Consists of ₩ 71 million which was reclassified to intangible assets from property, plant and equipment for the three-month period ended March 31, 2023.

10. 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	₩	1,018,434	₩	1,071,463
Acquisition ¹		2,435		2,652
Disposal/Impairment		(787)		(787)
Depreciation		(5,913)		(5,832)
Reclassification, etc. ²		(132,017)		(229)
Ending balance	₩	882,152	₩	1,067,267

¹During the three-month period ended March 31, 2024, the Group 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%~4.5%.

²Consists of ₩ 3,636 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 ₩ 171 million of transfers to property, plant and equipment for the three-month period ended March 31, 2023.

11. 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	₩	49,029	₩	40,244
Acquisition		5,672		10,465
Disposal		(237)		(1,715)
Depreciation		(7,032)		(6,326)
Reclassification, etc.		410		768
Ending balance	₩	47,842	₩	43,436

12. 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	Annual interest rate (%)		March 31, 2024	December 31, 2023	
Borrowings	Hana Bank	FTP(1 year)+1.08	₩	3,000 ₩	3,000	
	Hana Bank Shanghai branch	LPR(1 year)-0.5		6,035	-	
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2		-	5,764	
	KB Kookmin Bank	5.50		37,888	37,504	
	Shinhan Bank	Bank Debenture (6 months)+1.22		50,000	-	
		Bank Debenture (1 year)+1.05		10,000	10,000	
	The JoEun MG Community Credit Cooperatives	5.50		4,857	4,808	
		Subtotal		<u>111,780</u>	<u>61,076</u>	
	Others	Others	18.00		500	500
		Total		₩	<u>112,280 ₩</u>	<u>61,576</u>

12. Borrowings and Bonds (cont'd)

(b) Details of current portion of long-term borrowings and long-term borrowings as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)		March 31, 2024	December 31, 2023
Other financial loan for working capital ¹	NH Nonghyup Bank	2024.06.10~2027.06.20	-	₩	39,252 ₩	38,990
Financial agricultural mid-term loan ¹	NH Nonghyup Bank	2028.07.19	-		14,356	14,162
Borrowings	NH Nonghyup Bank	2028.11.21	3.00		11,231	11,060
		2028.12.27	3.00		12,075	11,891
	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67		10,000	10,000
	Korea Development Bank	2025.06.23	Industrial Financial Debenture(1 year)+0.66		6,250	7,500
		2024.12.01	Industrial Financial Debenture(6 months)+1.44		20,000	20,000
	Hana Bank	2026.12.31	CD+1.881		10	10
	Shinhan Bank	2026.05.21	6.50		4,599	3,708
	Shinhan Card Co., Ltd.	2026.05.21	6.50		8,039	6,488
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50		14,043	13,904
	OK Savings Bank	2026.05.21	9.00		7,958	7,879
	Korea Investment Savings Bank	2026.05.21	9.00		7,021	6,952
	JT Chinae Savings Bank	2026.05.21	9.00		6,553	6,488
	The-K Savings Bank	2026.05.21	9.00		4,681	4,635
	BNK Savings Bank	2026.05.21	9.00		4,681	4,635
	Choeun Savings Bank	2026.05.21	9.00		2,809	2,781
	Insung Savings Bank	2026.05.21	9.00		1,872	1,854
Incheon Savings Bank	2026.05.21	9.00		1,872	1,854	
	Total			₩	177,302 ₩	174,791
Current					37,561	27,521
Non-current					139,741	147,270
	Total			₩	177,302 ₩	174,791

¹This Borrowing is Contract Cultivation Fund for Ginseng-Integration Project that policy fund for agriculture, forestry and fisheries supported by the Ministry of Agriculture, Food and Rural Affairs. Therefore, the interest rate on the loan is 0% and the present value discount amount is recognized as a Government grants after calculating the present value.

(c) 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

12. Borrowings and Bonds (cont'd)

(d) Convertible bonds

The book value of convertible bonds issued by the Group as of March 31, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>		<u>December 31, 2023</u>	
Face value	₩	30,300	₩	30,300
Redemption premium		1,234		1,234
Conversion right adjustment		(7,218)		(8,156)
Total	₩	<u>24,316</u>	₩	<u>23,378</u>

Details of issuance condition of convertible bonds issued by the Group as of March 31, 2024, are as follows:

<u>Classification</u>	<u>Details</u>
Type and name	1st unregistered non-guarantee private convertible bond
Underwriter	Korea Investment & Securities Co., Ltd. and 13 other underwriters
Issuing company	Yungjin Pharm. Co., Ltd.
Issuance date	2023.11.21
Maturity date	2028.11.21
Total issuance amount	₩ 30,300 million
Conversion price per share	₩ 2,305
Number of shares issued at conversion	13,145,336 shares
Condition for conversion price adjustment	(a) In the case of issuance of new shares due to paid-in capital increase, capital increase without consideration, stock dividend, capital transfer of reserves at an issue price below the market price, or issuance of convertible bonds or bonds with warrants at a conversion price or exercise price below the market price, the conversion price is adjusted as follows. Conversion price after adjustment = Conversion price before adjustment × [(A+(B× C/D))/(A+B)] A: Number of outstanding shares, B: Number of newly issued shares, C: Issue price per share, D: Market price (b) In cases where the conversion price needs to be adjusted due to a merger, capital reduction, stock split or merger, etc., adjust to the same effect that the "bondholder" of the "bonds" could have had if the conversion right had been exercised immediately before these events and the entire amount had been acquired with stocks. (c) If reasons for an increase in stock value, such as capital reduction or stock merger, occur, the conversion price is adjusted on the condition that it is reflected upward by the adjustment ratio due to capital reduction, stock merger and others. (d) If the conversion price adjusted in accordance with the above (a), (b), (c) provisions is less than the par value of the stock, the par value shall be the conversion price, and the total issuance price of the stocks to be issued through the conversion of each convertible bond cannot exceed the issuance price of each convertible bond.
Conversion period	From November 21, 2024 to October 21, 2028
Conversion ratio	100% of bond price
Early redemption right	On November 21, 2025, which is two years from the date of issuance of the bond, and every three months thereafter, bondholders of the bond may request early redemption before maturity for the entire amount calculated by multiplying the electronic registration amount by the early redemption rate (approximately 2% annual compound interest).
Yield to maturity	2.00%
Coupon rate	-

(e) As discussed in Note 22 (c) of interim consolidated financial statements, the Group provides collaterals for the above borrowings.

13. 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>	<u>March 31, 2024</u>		<u>March 31, 2023</u>	
Defined benefit plans:				
Current service cost	₩	12,140	₩	10,976
Net interest on net defined benefit liabilities		(206)		(1,067)
Past service cost and gain and loss on settlement		18		28
Subtotal		<u>11,952</u>		<u>9,937</u>
Defined contribution plan:				
Contributions recognized as expense		2,402		3,515
Other long-term employee benefits:				
Current service cost, etc.		1,504		1,336
Termination benefits:				
Voluntary retirements, etc.		1,584		485
Total	₩	<u>17,442</u>	₩	<u>15,273</u>

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

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>		<u>December 31, 2023</u>	
Present value of defined benefit obligations	₩	579,732	₩	580,538
Fair value of plan assets		(599,361)		(603,574)
Total	₩	<u>(19,629)</u>	₩	<u>(23,036)</u>

14. 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	13,040	4,641	12,901	4,409
Provision for site restoration	1,635	562	1,537	680
Provision for financial guarantee	10	14	18	26
Provision for greenhouse gases	59	-	51	-
Provision for others	16,489	2	16,926	2
Total	₩ 32,870	₩ 5,219	₩ 33,213	₩ 5,117

(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	₩ 665	₩ (808)	₩ 1,637
Refund liabilities	17,310	1,099	(728)	17,681
Provision for site restoration	2,217	20	(40)	2,197
Provision for financial guarantee	44	-	(20)	24
Provision for greenhouse gases	51	8	-	59
Provision for others	16,928	-	(437)	16,491
Total	₩ 38,330	₩ 1,792	₩ (2,033)	₩ 38,089

(in millions of Korean won)

	March 31, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 427	₩ (1,025)	₩ 3,574
Refund liabilities	18,309	1,117	(1,526)	17,900
Provision for site restoration	2,301	27	(30)	2,298
Provision for financial guarantee	134	-	(28)	106
Provision for greenhouse gases	194	-	(75)	119
Provision for others	15,407	281	(611)	15,077
Total	₩ 40,517	₩ 1,852	₩ (3,295)	₩ 39,074

15. 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
ePyeonghansang Daejeon station Centum Vista	December 2022	June 2026	37.21	226,951	193,218	71,820	7,437	59,919
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
Gwacheon Sangsang Xi tower B	January 2021	May 2023	100.00	266,691	239,568	232,962	-	138,460
Goyang Hyangdong district knowledge industry center ⁵	March 2021	July 2023	100.00	541,142	502,711	482,560	-	313,982
Total				₩ 2,084,263	₩ 1,850,903	₩ 1,574,642	₩ 12,591	₩ 878,141

¹Includes the expected sales value for commercial buildings, efficiency apartments, and the Knowledge Industry Center 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 from the total sales contract value.

³Excludes the revenue of ₩ 6,747 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 costs for common infrastructure, amounting to ₩ 227,438 million.

⁵As of March 31, 2024, the cumulative revenue and cost include the amount of revenues and costs incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

(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
ePyeonghansang Daejeon station Centum Vista	December 2022	June 2026	5.79	226,951	45,475	2,632	2,107	2,101
Gwacheon Sangsang Xi tower B	January 2021	May 2023	93.88	239,568	239,568	219,350	13,021	128,037
Goyang Hyangdong district knowledge industry center ³	March 2021	June 2023	75.42	541,142	540,080	407,330	9,961	185,833
Total				₩ 1,810,717	₩ 1,575,475	₩ 1,290,664	₩ 59,750	₩ 614,924

¹Includes the expected sales value for commercial buildings, efficiency apartments, and the Knowledge Industry Center 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 costs for common infrastructure, amounting to ₩ 104,205 million.

³Revenue for the three-month period ended March 31, 2023 excludes the amount of revenues incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

15. 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 apartment	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
Gwacheon Sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	₩ 1,574,642	₩ 1,498,126	₩ 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 advances for the option contract (balcony) in relation to main construction, which is recognized using 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	-	-
Gwacheon Sangsang Xi tower B	232,962	232,918	44	-
Goyang Hyangdong district knowledge industry center	482,560	481,579	981	-
Total	₩ 1,589,631	₩ 1,491,960	₩ 98,944	₩ 1,273

¹As of December 31, 2023, contract assets unclaimed to customers are ₩ 341,992 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

²Includes advances for the option contract (balcony) in relation to main construction, which is recognized using 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.

15. 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 2023, are as follows:

(in millions of Korean won)

Construction project	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	W -	W 1,358	W -	W 1,465
ePyeonhansesang 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	W 8,582	W 4,063	W 6,626	W 3,320

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

16. 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>	<u>March 31, 2024</u>		<u>March 31, 2023</u>	
Salaries	₩	129,430	₩	125,650
Retirement and termination benefits		10,365		9,047
Employee welfare		17,984		16,194
Travel expenses		4,649		4,977
Communication cost		1,557		1,543
Utilities		4,569		4,431
Taxes and dues		6,600		3,858
Supplies		1,156		2,273
Rent		4,717		4,662
Depreciation		14,716		14,650
Amortization		5,927		6,818
Repairs and maintenance		2,022		1,049
Vehicles		1,613		1,690
Insurance		956		769
Commissions		98,359		115,555
Freight and custody		17,170		16,365
Conferences		1,476		1,329
Advertising		58,867		52,394
Education and training		1,563		1,922
Prizes and rewards		533		417
Cooperation		240		207
Research and development		11,947		8,529
Impairment loss(reversal of impairment loss) on trade receivables		11,222		(2,582)
Total	₩	<u>407,638</u>	₩	<u>391,747</u>

17. 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	₩	12,803	₩	9,405
Gain on foreign currency translation		119,526		75,366
Gain on valuation of derivatives		35		3,805
Reversal of impairment loss on other receivables		113		21
Gain on disposal of property, plant and equipment		137		1,234
Gain on disposal of intangible assets		2		-
Gain on disposal of investment property		4,968		2,622
Gain on lease contract adjustments		58		65
Gain on disposal of Right-of-use assets		2		-
Miscellaneous income		6,128		3,554
Total	₩	<u>143,772</u>	₩	<u>96,072</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	₩	7,874	₩	9,840
Loss on foreign currency translation		16,371		10,075
Loss on valuation of derivatives		13,053		9,399
Loss on disposal of property, plant and equipment		68		176
Loss on impairment of property, plant and equipment		-		14
Loss on disposal of intangible assets		160		41
Loss on impairment of intangible assets		41		63
Loss on disposal of investment property		55		59
Donations		1,146		918
Loss on lease contract adjustments		5		3
Miscellaneous loss		2,511		3,192
Total	₩	<u>41,284</u>	₩	<u>33,780</u>

18. 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	₩	26,788	₩	16,003
Dividend income		2,889		5,295
Gain on valuation of financial assets measured at fair value through profit or loss		10,305		27,920
Total finance income	₩	39,982	₩	49,218
Finance cost:				
Interest expense	₩	9,624	₩	21,751
Loss on valuation of financial assets measured at fair value through profit or loss		3,330		10,047
Total finance cost	₩	12,954	₩	31,798
Net finance income	₩	27,028	₩	17,420

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

19. 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 21.74% and 29.69%, respectively

(b) Pillar Two legislation has been enacted or substantially enacted in some jurisdictions where the Group operates. According to the amendment to the Adjustment of International Taxes Act No. 19191 in the Republic of Korea, the Group expects to be subject to the application of Pillar Two Model Rules legislation starting from the fiscal year commencing on January 1, 2024. The Group is currently assessing the impact of implementing Pillar Two Model Rules on the Group, and it is expected that the implication of Pillar Two legislation shall affect the net profits of the Group'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 Group estimates that the impact of Pillar Two income taxes on its consolidated financial statements will be immaterial, in accordance with its assessment result identified so far. The Group will apply the temporary exception to the recognition and disclosure of deferred income tax assets and liabilities related to Pillar Two legislation.

20. Related Parties

(a) Details of the Group'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
Associates	LitePharmTech Co., Ltd. ¹	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd. ¹	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	19.47	19.47
	KOCREF 36 REIT	Korea	21.01	21.01
	KOCREF 41 REIT	Korea	26.47	26.47
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Cheongna Medipolis PFV Co.,Ltd. ²	Korea	51.01	51.01
	INNODIS CO., Ltd. ¹	Korea	19.64	19.64
	SJ BIO MED Co., Ltd. ^{1,3}	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	21.92	21.92
	Mirae Asset KT&G Investment Fund I	Korea	50.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	35.00
	KB KT&G New Growth Fund 1 ⁴	Korea	66.67	66.67
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁵	Germany	51.35
Starfield Suwon Inc.		Korea	50.00	50.00
Others	GL Donuimun D&C Co., Ltd ⁶	Korea	-	-
	HN D&C Co., Ltd ⁶	Korea	-	-

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

²The 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.

³As of March 31, 2024, liquidation procedures are in progress.

⁴Although the Group's percentage of ownership for the invested company exceeds 50%, the Group classified the ownership as investment in associates as the Group does not have control over related activities and may exercise significant influence on the invested company by participating on the entity's investment decision-making board.

⁵The 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.

⁶The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party of the Group as the Group acquired DNC Deogeun Co., Ltd. as its subsidiary during the year ended December 31, 2023.

20. Related Parties (cont'd)

(b) The Group conducts transactions with related parties, such as sales of goods and provision of services, and etc. Details of 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	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	INNODIS CO., LTD.	W -	W 74	W -	W 49
Joint ventures	Starfield Suwon, Inc.	-	22	-	-
Others	GL Donuimun D&C Co., Ltd	933	-	-	-
	HN D&C Co., Ltd	175	-	-	-
	Total	W 1,108	W 96	W -	W 49

(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
Associate	AndaStation Professional Investment Private REIT No.1	W -	W -	W 481	W -
Joint venture	Starfield Suwon, Inc.	-	10	8	37
Others	GL Donuimun D&C Co., Ltd ¹	30,000	768	30,000	759
	HN D&C Co., Ltd	9,000	-	9,000	16
	Total	W 39,000	W 778	W 39,489	W 812

¹Presented in the gross amount before deducting loss allowance of ₩ 3,370 million (December 31, 2023: ₩ 3,483 million) as of March 31, 2024.

(d) Details of funded 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	
		Equity investment	Equity recovery	Equity investment	Equity recovery
Joint venture	Starfield Suwon, Inc.	W 15,000	W -	W -	W -

(e) There are no payment guarantees provided to or from the related parties.

(f) The Group currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. under 50:50 ratio during 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 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.

20. Related Parties (cont'd)

(g) The Group has entered into a contribution agreement in relations to equity instrument 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.

(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 March 31, 2024, 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 Group 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 22 (d)).

(k) The Parent Company has a joint disposal right to require 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.

(l) As of March 31, 2024, 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 22 (c)).

(m) The Group was ordered to pay a sewage fee of ₩ 6,350 million for 1 block of Daeyuhyeong District by Suwon City, and Starfield Suwon Inc. completed the payment during the year ended December 31, 2023 (see Note 22 (d)).

(n) 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>

21. 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 operates the companywide 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 compliance with risk management policies and procedures limits on risk exposure. The Group'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 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 is internally measuring the currency risk 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, that 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.

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

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the trade payables and other payables borrowings and lease liabilities. The management of the Group 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 Group 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 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 March 31, 2024 and December 31, 2023, the carrying amount of financial assets is the maximum exposure to credit risk.

(c) Liquidity risk

The Group 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 Group 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 Group determines that the financial liabilities are redeemable through cash flows from operating activities and cash inflows from financial assets. Group 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.

21. 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)

		<u>March 31, 2024</u>		<u>December 31, 2023</u>
Financial assets:				
Financial assets measured at fair value through profit or loss	₩	868,344	₩	687,388
Financial assets measured at fair value through other comprehensive income or loss		245,879		233,058
Derivative assets		522		7,751
Financial assets measured at amortized cost				
Cash and cash equivalents		1,044,967		1,031,953
Other financial assets		445,709		378,565
Trade and other receivables		1,580,804		1,656,209
Long-term deposits		1,533,267		1,479,737
Subtotal		<u>4,604,747</u>		<u>4,546,464</u>
Total financial assets	₩	<u>5,719,492</u>	₩	<u>5,474,661</u>
Financial liabilities:				
Derivative liabilities	₩	4,857	₩	-
Financial liabilities measured at amortized cost				
Short-term borrowings		112,280		61,576
Current portion of long-term borrowings		37,561		27,521
Long-term borrowings and bonds		463,305		469,813
Trade and other payables		1,889,540		1,284,893
Lease liabilities		44,805		46,478
Liabilities for non-controlling interests		9,243		17,821
Subtotal		<u>2,556,734</u>		<u>1,908,102</u>
Total financial liabilities	₩	<u>2,561,591</u>	₩	<u>1,908,102</u>

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

21. 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:

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

(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	₩ 868,344	₩ -	₩ 483,746	₩ 384,598
Financial assets measured at fair value through other comprehensive income or loss	245,879	236,374	-	9,505
Derivative assets	522	-	522	-
Total financial assets	₩ 1,114,745	₩ 236,374	₩ 484,268	₩ 394,103
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	₩ 687,388	₩ -	₩ 299,638	₩ 387,750
Financial assets measured at fair value through other comprehensive income or loss	233,058	223,553	-	9,505
Derivative assets	7,751	-	7,751	-
Total financial assets	₩ 928,197	₩ 223,553	₩ 307,389	₩ 397,255

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.

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	₩	397,255	₩	367,456
Acquisition		10,853		245
Disposal		(19,257)		(1,607)
Changes in fair value		5,252		1,509
Ending balance	₩	394,103	₩	367,603

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

(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	W -	W -	W -	W 26,788	W -	W 26,788
Dividend income	785	2,104	-	-	-	2,889
Gain or loss on valuation	6,975	-	(13,018)	-	-	(6,043)
Interest expense	-	-	-	-	(9,624)	(9,624)
Impairment loss	-	-	-	(11,109)	-	(11,109)
Gain on lease contract adjustments	-	-	-	-	53	53
Total	W 7,760	W 2,104	W (13,018)	W 15,679	W (9,571)	W 2,954
Other comprehensive income(loss) before tax:						
Net change in fair value	W -	W 12,820	W -	W -	W -	W 12,820

(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	W -	W -	W -	W 16,003	W -	W 16,003
Dividend income	1,325	3,970	-	-	-	5,295
Gain or loss on valuation	17,872	-	(5,594)	-	-	12,278
Gain or loss on disposal	-	-	-	-	(21,751)	(21,751)
Reversal of impairment loss	-	-	-	2,604	-	2,604
Gain on lease contract adjustments	-	-	-	-	62	62
Total	W 19,197	W 3,970	W (5,594)	W 18,607	W (21,689)	W 14,491
Other comprehensive income(loss) before tax:						
Net change in fair value	W -	W 6,068	W -	W -	W -	W 6,068

22. Contingent Liabilities and Commitments

(a) Litigation cases

As of March 31, 2024, the Group has 20 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 73,113 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 March 31, 2024.

(b) Commitments with financial institutions

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

(in millions of Korean won or thousands of US dollars or thousands of Chinese Yuan)

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank and one other	USD	210,300	77,517
Derivatives trading ¹	KB Kookmin Bank and five others	USD	213,738	8,511
Trade receivables factoring agreement	Hana Bank	KRW	5,000	730
Others	Korea Development Bank and seven others	KRW	1,041,056	230,966
	Hana Bank Shanghai branch	CNY	32,490	32,490

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

As of March 31, 2024, the Group 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 Group as of March 31, 2024 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	237,581	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	20,585	License guarantee, etc.
GL Industrial Development Co., Ltd. and one individual	KRW	49,800	Joint guarantee
ARCH and one other	USD	79	License bond payment guarantee
Ameria Bank	USD	500	Trade receivables 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 two others	RUB	4,519,283	Trade receivables payment guarantee, etc.

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

22. Contingent Liabilities and Commitments (cont'd)

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

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

Guarantee user	Guaranteed by	Currency	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	KRW	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	KRW	8,000	513	8,000	515	
Agency registered in Korea Special Sales Financial Cooperative Association	Korea Special Sales Financial Cooperative Association	KRW	502	-	502	-	Payment guarantee for deductibles and others of branch
Buyer of Goyang Hyangdong district knowledge industry center ²	KB Kookmin Bank and one other	KRW	1,262	1,052	6,343	5,286	Loan guarantee for the intermediate payment of off-plan sales construction
Marisana Enterprises Limited	Alfa Bank	RUB	14,384	14,384	14,384	14,384	Payment guarantee for rent

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.

²The above intermediate payment loan was not repaid by the loan maturity date, resulting in trigger clause in accordance with the intermediate payment loan business agreement with the financial institutions. Financial institutions may request cancellation, termination, or subrogation of loan debt for sales contracts in which the above reasons for trigger clause have occurred, and the joint guarantor has the obligation to repay the sales contract holder's interim payment loan obligation with top priority.

22. Contingent Liabilities and Commitments (cont'd)

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

<i>(in millions of Korean won)</i>		Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	W	23,406	W 10,000	W 15,600	KB Kookmin Bank	Long term borrowings
		45,868	26,250	44,400	Korea Development Bank	Long term borrowings and limit loan
		16,685	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
		29,924	-	2,400	Korea Development Bank	Collateral for limit loan agreement
		2,738	10	30,000	Hana Bank	Facility loan
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
		77,198	44,000	52,800	KB Kookmin bank and one other	Short-term borrowings
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
	Pledge of Profit Rights	-	64,128	182,520	Shinhan Bank and two others (1st tier), OK Savings Bank and seven others (2nd tier), Daesang Construction Co., Ltd. (3rd tier)	Collateral for project financing
Investments in Associates		1,532	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. ¹
Total	W	568,458	W 180,206	W 394,351		

¹Equity holdings of all equity 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:

<i>(in millions of Korean won)</i>			March 31, 2024	December 31, 2023
Other financial assets and other receivables	Establishment of a pledge for property development	W	5,203	W 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, etc.		425	424
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit		600	600
	Innergin Mall payment guarantee		-	110
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
Cash and cash equivalents	Establishment of a pledge to savings		1,054	4,765
	Total	W	112,859	W 116,659

22. Contingent Liabilities and Commitments (cont'd)

As of March 31, 2024, cash and cash equivalents and short-term financial instruments of ₩ 33,680 million held by the Group are deposited in a trust account in accordance with the managed land trust contract and fund management business entrustment contract.

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 ₩ 315,201 million.

(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 ₩ 1,533,267 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 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 March 31, 2024, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 105,650 million and ₩ 59,205 million, respectively (as of December 31, 2023: ₩ 105,725 million and ₩ 37,295 million, respectively).

As of March 31, 2024, the Group has a management trust agreement in place with Marriott International Management Company B.V., and has been provided with the international public relations services by Global Hospitality Licensing S.A.R.L. Furthermore, the Group has been provided with the technical advice by Marriott International Design & Construction Services, Inc.

The Group currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. under 50:50 ratio during 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 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.

The Group 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.

As of March 31, 2024, 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.

22. Contingent Liabilities and Commitments (cont'd)

The Group 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 Group has entered into a contribution agreement in relations to equity instrument 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 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 during the year ended December 31, 2018 and completed the balance payment during the year ended December 31, 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 require 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.

As of March 31, 2024, the Group 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 Group.

The Group 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 Group has an obligation to sell a portion of the residential and commercial facilities built by the Group at a low price and to donate roads to Seoul City.

22. Contingent Liabilities and Commitments (cont'd)

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

As of March 31, 2024, in relation to the Daejeon station Centum Vista sales project, the Group 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 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, under the agreement. For prompting the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in instalment 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 Parent 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.

As of March 31, 2024, 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 Parent Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of March 31, 2024.

The Parent 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 Group's business in Russia and its financial position therein cannot be reasonably estimated as of March 31, 2024.

According to the project finance loan agreement for the Gangnam station business complex development project as of March 31, 2024, in the event of trigger clause, such as failure to pay the loan principal and interest, the Group may lose all rights related to the project and take any action, including transferring all rights related to the project to a person designated by the agent financial institution.

23. Cash Flows

Details of 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	₩	285,613	₩	274,228
Operating profit from continuing operations		287,652		276,855
Operating loss from discontinued operation		(2,039)		(2,627)
Adjustments:				
Employee welfare		1,720		1,197
Retirement benefits		11,952		9,937
Loss on valuation or obsolescence of inventories		4,559		1,810
Depreciation		53,186		52,164
Amortization		7,629		6,960
Impairment loss (reversal of impairment loss) on trade and other receivables		11,109		(2,604)
Loss on foreign currency translation		16,371		10,075
Loss on valuation of derivatives		13,053		9,398
Loss on disposal of property, plant and equipment		68		176
Loss on impairment of property, plant and equipment		-		14
Loss on disposal of intangible assets		160		41
Loss on impairment of intangible assets		41		63
Loss on disposal of investment properties		55		59
Other expenses, etc		1,109		362
Finance cost		12,954		31,798
Share based payment expense		191		-
Income tax expense		79,923		115,789
Gain on foreign currency translation		(119,526)		(75,366)
Gain on valuation of derivatives		(35)		(3,805)
Gain on disposal of property, plant and equipment		(137)		(1,234)
Gain on disposal of intangible assets		(2)		-
Gain on disposal of investment property		(4,968)		(2,622)
Gain on disposal of right-of-use assets		(2)		-
Other income, etc.		(2,131)		(3,076)
Finance income		(40,018)		(49,218)
Increase of investments in associates and joint ventures due to share of net gain/loss		(5,092)		1,757
Changes in working capital:				
Decrease (increase) in trade and other receivables		78,019		(193,000)
Decrease (increase) in derivatives		(933)		24,081
Decrease in inventories		5,130		51,655
Increase in accrued tobacco excise and other taxes		(87,464)		(50,085)
Increase in advance payments		(20,966)		(48,929)
Increase in prepaid expenses		(759)		(12,893)
Increase (decrease) in trade and other payables		79,388		(307,678)
Increase in advance receipts		2,976		6,259
Increase in tobacco excise and other taxes payable		36,851		90,670
Decrease in provision for site restoration		-		(1)
Increase (decrease) in net defined benefit liabilities (assets)		(8,999)		496
Cash generated from operations	₩	411,025	₩	(61,522)

24. Discontinued Operations

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) Details of profit or loss from discontinued operation:

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(2,075)	(2,388)
Operating loss	(2,075)	(2,388)
Other income	-	244
Other expense	-	(483)
Finance income	36	-
Finance costs	-	-
Loss on discontinued operation, before tax	(2,039)	(2,627)
Income tax expense	-	-
Loss on discontinued operation, after tax	(2,039)	(2,627)
Exchange differences on translating foreign operations	(1,913)	(1,055)
Total comprehensive loss on discontinued operation	₩ (3,952)	₩ (3,682)

Profit or loss from discontinued operations for each of the three-month periods ended March 31, 2024 and 2023 are entirely attributed to the owners of the Parent Company.

(b) Details of cash flows from discontinued operation:

<i>(in millions of Korean won)</i>	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Cash flows from operating activities	₩ (1,957)	₩ (2,861)
Cash flows from investing activities	36	-
Cash flows from financing activities	(231)	(235)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	564	458
	₩ (1,588)	₩ (2,638)



25. Events After the Reporting Period

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

The Group 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 Group 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 Group's consolidated financial statements.