

KT&G Corporation and its subsidiaries

Interim consolidated financial statements
for each of the six-month periods ended June 30, 2025 and 2024
with the independent auditor's review report



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Report on review of interim consolidated financial statements

(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors KT&G Corporation

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the interim consolidated statement of financial position as of June 30, 2025, and the related interim consolidated statements of comprehensive income for each of the three-month and six-month periods ended June 30, 2025 and 2024, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for each of the six-month periods ended June 30, 2025 and 2024 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, 2024, 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, 2025 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2024, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

August 8, 2025

This review report is effective as of August 8, 2025, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's review report 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 six-month periods ended June 30, 2025 and 2024

“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 June 30, 2025 (unaudited) and December 31, 2024



(in millions of Korean won)

	Notes		June 30, 2025		December 31, 2024
Assets					
Current assets					
Cash and cash equivalents	22,23	₩	1,139,531	₩	1,135,968
Current other financial assets	22,23		317,859		463,317
Current financial assets measured at fair value through profit or loss	22,23		241,901		244,941
Trade and other receivables	5,21,22		1,559,155		1,561,652
Derivative assets	22,23		18,127		-
Inventories	6		3,001,235		3,101,313
Refund assets and others			1,494		6,161
Accrued tobacco excise and other taxes			491,610		404,017
Advance payments	23		140,913		124,642
Prepaid expenses			168,104		131,094
Current tax assets			2,802		3,205
Total current assets			7,082,731		7,176,310
Non-current assets					
Long-term other financial assets	22,23		69,050		30,704
Long-term deposits in MSA Escrow Fund	22,23		1,557,856		1,705,504
Long-term financial assets measured at fair value through profit or loss	22,23		364,475		337,928
Long-term trade and other receivables	5,22		170,154		141,573
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23		262,054		211,693
Investments in associates and joint ventures	4,7,21,23		484,970		482,349
Property, plant and equipment	8,23		2,875,513		2,664,382
Intangible assets	9		172,193		179,681
Investment properties	10,23		741,219		761,154
Right-of-use assets	11		52,936		50,498
Long-term advance payments	23		130,939		100,700
Long-term prepaid expenses			24,647		13,348
Deferred tax assets	20		51,101		61,390
Net defined benefit assets	14		1,886		8,023
Total non-current assets			6,958,993		6,748,927
Total assets		₩	14,041,724	₩	13,925,237
Liabilities					
Current liabilities					
Short-term borrowings	12,22,23	₩	195,879	₩	287,975
Current portion of long-term borrowings	12,22,23		136,516		36,191
Current portion of bonds	13,22		149,879		99,895
Current portion of convertible bonds	13,22		29,625		27,388
Trade and other payables	21,22		1,604,168		1,680,023
Current lease liabilities	22		21,033		20,881
Derivative liabilities	22,23		123		32,801
Advance receipts	16		63,683		65,312
Current refund liabilities and provisions	15,23		36,903		39,080
Current tax liabilities	20		181,343		197,831
Tobacco excise and other taxes payables			715,840		655,511
Total current liabilities			3,134,992		3,142,888
Non-current liabilities					
Long-term borrowings	12,22,23		131,310		213,968
Long-term bonds	13,22		1,162,694		808,039
Long-term trade and other payables	22		105,514		81,836
Long-term lease liabilities	22		29,097		27,865
Long-term advance receipts	16		10,074		9,385
Net defined benefit liabilities	14		57,359		42,575
Long-term refund liabilities and provisions	15,23		7,580		7,623
Deferred tax liabilities	20		158,761		225,521
Non-controlling interests liabilities	22		6,720		7,072
Total non-current liabilities			1,669,109		1,423,884
Total liabilities		₩	4,804,101	₩	4,566,772

KT&G Corporation and its subsidiaries
Interim consolidated statements of financial position, continued
as of June 30, 2025 (unaudited) and December 31, 2024



(in millions of Korean won)

	Notes	June 30, 2024	December 31, 2024
Equity			
Share capital	₩	954,959	₩ 954,959
Other capital surplus		5,550	5,944
Treasury shares		(835,255)	(1,030,541)
Gain on sale of treasury shares		529,807	529,029
Reserves		6,834,187	7,175,263
Retained earnings		1,701,876	1,604,517
Equity attributable to owners of the Parent Company		<u>9,191,124</u>	<u>9,239,171</u>
Non-controlling interest		<u>46,499</u>	<u>119,294</u>
Total equity	₩	<u>9,237,623</u>	₩ 9,358,465
 Total liabilities and equity	₩	<u>14,041,724</u>	₩ 13,925,237

"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 and six-month periods ended June 30, 2025 and 2024 (unaudited)



(in millions of Korean won)

Notes	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Continuing operations				
Sales	4,16 ₩	1,547,903 ₩	3,039,011 ₩	1,423,774 ₩
Cost of sales		(795,515)	(709,652)	(1,357,705)
Gross profit		752,388	1,506,071	1,358,330
Selling, general and administrative expenses	17,21	(402,506)	(870,629)	(392,129)
Operating profit	4	349,882	635,442	321,993
Other income	18,21,22	86,416	164,668	129,215
Other expense	18,21,22	(261,806)	(326,981)	(38,396)
Finance income	19,21,22	35,509	70,675	37,116
Finance costs	19,22	(24,074)	(40,618)	(15,907)
Share of net profit of associates and joint ventures	7	6,478	13,831	4,620
Profit (loss) arising from net monetary assets		(3,441)	9,370	(6,461)
Profit before income tax		188,964	526,387	432,180
Income tax expense	20	(43,975)	(121,217)	(117,936)
Profit from continuing operations		144,989	405,170	314,244
Discontinued operation				
Loss from discontinued operations	25	(1,475)	(3,727)	(1,484)
Profit for the period		₩ 143,514	₩ 401,443	₩ 312,760
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		₩ (4,110)	₩ (4,412)	₩ (5,609)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	22	38,328	37,045	735
Equity changes in equity method	7	-	(8)	1
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations		(52,970)	(28,030)	37,169
Equity changes in equity method	7	64	74	103
Total comprehensive income for the period		₩ 124,826	₩ 406,112	₩ 345,159
Profit for the period is attributable to:				
Owners of the Parent Company				
Profit from continuing operations		₩ 144,802	₩ 402,670	₩ 314,320
Loss from discontinued operations	25	(1,475)	(3,727)	(1,484)
Profit attributable to owners of the Parent Company		₩ 143,327	₩ 398,943	₩ 312,836
Non-controlling interests				
Profit (loss) from continuing operations		187	2,500	(76)
Profit (loss) from discontinued operations	25	-	-	-
Profit (loss) attributable to non-controlling interests		187	2,500	(76)
Total		₩ 143,514	₩ 401,443	₩ 312,760
Total comprehensive income for the period attributable to:				
Owners of the Parent Company				
Profit from continuing operations		₩ 126,286	₩ 407,526	₩ 348,176
Loss from discontinued operations	25	(1,632)	(3,917)	(2,952)
Total comprehensive income attributable to owners of the Parent Company		₩ 124,654	₩ 403,609	₩ 345,224
Non-controlling interests				
Profit (loss) from continuing operations		172	2,503	(65)
Profit (loss) from discontinued operations	25	-	-	-
Total comprehensive income (loss) attributable to non-controlling interests		172	2,503	(65)
Total		₩ 124,826	₩ 406,112	₩ 345,159
Earnings (losses) per share				
Basic and diluted				
From continuing operations (in Korean won)		₩ 1,342	₩ 3,733	₩ 2,731
From discontinued operations (in Korean won)		(14)	(35)	(13)
		₩ 1,328	₩ 3,698	₩ 2,718

"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 six-month periods ended June 30, 2025 and 2024 (unaudited)



(in millions of Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on disposal of treasury shares	Reserves	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance as of January 1, 2024	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,299	₩ 1,692,240	₩ 9,174,405	₩ 120,530	₩ 9,294,935
Total comprehensive income (loss) for the period									
Profit (loss) for the period	-	-	-	-	-	599,182	599,182	(809)	598,373
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(5,850)	(5,850)	22	(5,828)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	9,741	-	9,741	-	9,741
Transfer from gain (loss) on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(12,305)	12,305	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	42,293	-	42,293	(3)	42,290
Capital changes in equity method	-	-	-	-	189	-	189	-	189
Subtotal other comprehensive income (loss) for the period	-	-	-	-	39,918	6,455	46,373	19	46,392
Total comprehensive income (loss) for the period	-	-	-	-	39,918	605,637	645,555	(790)	644,765
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(451,240)	(451,240)	-	(451,240)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-	-	-
Retirement of treasury shares	-	-	206,032	-	-	(206,032)	-	-	-
Share options	-	130	360	135	-	-	625	-	625
Total transactions with owners of the Parent Company	-	130	206,392	135	(108,140)	(549,132)	(450,615)	-	(450,615)
Balance as of June 30, 2024	₩ 954,959	₩ 5,076	₩ (1,030,541)	₩ 529,029	₩ 7,162,077	₩ 1,748,745	₩ 9,369,345	₩ 119,740	₩ 9,489,085
Balance as of January 1, 2025	₩ 954,959	₩ 5,944	₩ (1,030,541)	₩ 529,029	₩ 7,175,263	₩ 1,604,517	₩ 9,239,171	₩ 119,294	₩ 9,358,465
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	398,943	398,943	2,500	401,443
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(4,415)	(4,415)	3	(4,412)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	37,045	-	37,045	-	37,045
Exchange differences on translating foreign operations	-	-	-	-	(28,030)	-	(28,030)	-	(28,030)
Capital changes in equity method	-	-	-	-	66	-	66	-	66
Subtotal other comprehensive income (loss) for the period	-	-	-	-	9,081	(4,415)	4,666	3	4,669
Total comprehensive income for the period	-	-	-	-	9,081	394,528	403,609	2,503	406,112
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(453,068)	(453,068)	-	(453,068)
Transfer from other reserve	-	-	-	-	(350,157)	350,157	-	-	-
Changes in scope of consolidation	-	-	-	-	-	-	-	(75,298)	(75,298)
Retirement of treasury shares	-	-	194,258	-	-	(194,258)	-	-	-
Share options	-	(394)	1,028	778	-	-	1,412	-	1,412
Total transactions with owners of the Parent Company	-	(394)	195,286	778	(350,157)	(297,169)	(451,656)	(75,298)	(526,954)
Balance as of June 30, 2025	₩ 954,959	₩ 5,550	₩ (835,255)	₩ 529,807	₩ 6,834,187	₩ 1,701,876	₩ 9,191,124	₩ 46,499	₩ 9,237,623

"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 six-month periods ended June 30, 2025 and 2024 (unaudited)



(in millions of Korean won)

	Notes	June 30, 2025	June 30, 2024
Net cash flows provided by operating activities		₩ 388,141	₩ 553,683
Cash generated from operations	24	596,486	744,539
Income taxes paid		(208,345)	(190,856)
Net cash flows used in investing activities		(255,004)	(469,634)
Interest received		58,641	55,146
Dividends received		22,794	9,743
Decrease in other financial assets		150,446	227,756
Decrease in current financial assets measured at fair value through profit or loss		17,922	53,765
Decrease in long-term financial assets measured at fair value through profit or loss		3,061	15,976
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		-	18,774
Decrease in long-term deposits in MSA Escrow Fund		133	-
Disposal of property, plant and equipment		328	10,519
Disposal of intangible assets		3,653	125
Disposal of investment properties		8,065	16,289
Disposal of assets held for sale		175	181
Disposal of investments in associates and joint ventures		-	23,738
Disposal of investments in subsidiaries		35,000	-
Collection of loans		16,651	13,081
Collection of guarantee deposits		5,217	792
Increase in other financial assets		(80,975)	(329,908)
Increase in current financial assets measured at fair value through profit or loss		(30,270)	(165,563)
Increase in long-term financial assets measured at fair value through profit or loss		(16,116)	(21,437)
Acquisition of property, plant and equipment		(348,244)	(335,369)
Acquisition of intangible assets		(13,380)	(14,730)
Acquisition of investment properties		(1,132)	(4,611)
Acquisition of right-of-use assets		(1,894)	(1,366)
Acquisition of investments in associates and joint ventures		(3,000)	(15,000)
Increase in loans		(67,062)	(26,823)
Increase in guarantee deposits		(4,194)	(712)
Net cash outflows due to changes in scope of consolidation		(10,823)	-
Net cash flows used in financing activities		(132,427)	(168,775)
Dividends paid		(453,069)	(451,240)
Interest paid		(33,178)	(33,707)
Repayment of lease liabilities		(13,639)	(11,731)
Repayment of borrowings		(1,856,562)	(131,754)
Proceeds in borrowings		1,798,761	160,567
Proceeds from issuance of bond		425,260	298,990
Increase in non-controlling interests liabilities		-	100
Net increase (decrease) in cash and cash equivalents		710	(84,726)
Cash and cash equivalents at the beginning of the period		1,135,968	1,031,953
Effect of exchange rate fluctuation on cash and cash equivalents		2,853	76,937
Cash and cash equivalents at the end of the period		₩ 1,139,531	₩ 1,024,164

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

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2025, the Parent Company has three manufacturing plants, including the Daejeon plant, and 11 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/Sejong 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 45,400,000 and 35,816,658 shares of Global Depositary Receipts (“GDRs”) on Luxembourg Stock Exchange, on October 31, 2001 and October 17, 2002, respectively (each GDR represents the right to receive one-half ordinary share of the Parent Company). Then on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2025 and 2024 (Unaudited)



1.2 Consolidated Subsidiaries

Details of the Group's consolidated subsidiaries as of June 30, 2025 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	June 30, 2025	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	June 30, 2025	Korea
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	June 30, 2025	Korea
	Tae.A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	June 30, 2025	Korea
	SangSang Stay Inc.	Hotel	100.00	June 30, 2025	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	June 30, 2025	Singapore
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobacco	100.00	June 30, 2025	Turkiye
	KT&G Pars	Manufacturing and selling tobacco	99.99	June 30, 2025	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobacco	100.00	June 30, 2025	Russia
	KT&G Kazakhstan LLP	Manufacturing and selling tobacco	100.00	June 30, 2025	Kazakhstan
	KT&G USA Corporation	Selling tobacco	100.00	June 30, 2025	USA
	KT&G Global Rus L.L.C.	Selling tobacco	100.00	June 30, 2025	Russia
	KT&G Taiwan Corporation	Selling tobacco	100.00	June 30, 2025	Taiwan
	KT&G Global Kazakhstan LLP	Selling tobacco	100.00	June 30, 2025	Kazakhstan
	KT&G Global TAS FE LLC	Selling tobacco	100.00	June 30, 2025	Uzbekistan
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	June 30, 2025	Brazil
	Gwacheon SangSang PFV Inc	Real estate development and sales business	51.00	June 30, 2025	Korea
	Mastern No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	June 30, 2025	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	June 30, 2025	Korea
	Cheongna Medipolis Development Co., Ltd.	Real estate service business	66.67	June 30, 2025	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	June 30, 2025	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	June 30, 2025	Korea
	CENTRAL PHARM INC.	Selling health functional food	50.01	June 30, 2025	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	June 30, 2025	China
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	June 30, 2025	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	June 30, 2025	Japan
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	June 30, 2025	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	June 30, 2025	USA
Centralpharm	Pacific 365, Inc	Selling health functional food	50.01	June 30, 2025	USA
Cosmocos Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	June 30, 2025	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur ²	Manufacturing and selling tobaccos	99.99	June 30, 2025	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobacco	99.96	June 30, 2025	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Selling tobacco	99.99	June 30, 2025	Indonesia

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

² A portion of PT Trisakti Purwosari Makmur is held by the Parent Company.

1.2 Consolidated Subsidiaries (cont'd)

For the six-month period ended June 30, 2025, the Parent Company additionally acquired equity securities of ₩ 39,595 million in KT&G Kazakhstan LLP through issuance of new stocks.

For the six-month period ended June 30, 2025, the Parent Company sold all of its equity securities of ₩ 35,552 million in DNC Deogeun Co.

For the six-month period ended June 30, 2025, the Parent Company acquired ₩ 27,753 million of KT&G Global TAS FE LLC through investment establishment method.

For the year ended December 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.

For the year ended December 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 ₩ 137,912 million of KT&G Kazakhstan LLP.

For the year ended December 31, 2024, the Parent Company acquired Cheongna Medipolis Development Co., Ltd through capital investment of 40,000 shares (₩ 200 million).

For the year ended December 31, 2024, Korea Ginseng Corporation, a subsidiary of the Parent Company, acquired 22,501 shares (₩ 9,000 million) of CENTRAL PHARM INC., through a business combination, and Pacific 365, Inc., a subsidiary of CENTRAL PHARM INC., has been included in the Parent Company's scope of consolidation.

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 2025 reporting period. As of June 30, 2025, these amendments and interpretations do not have a material impact on the interim consolidated financial statements.

(a) Amendments to KIFRS 1021 The Effects of Changes in Foreign Exchange Rates and 1101 First-time Adoption of International Financial Reporting Standards – Lack of Exchangeability

When an entity estimates a spot exchange rate because exchangeability between two currencies is lacking, the entity shall disclose related information.

(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, 2024, 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, 2024, 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 ¹	Manufacturing and selling tobaccos
Ginseng	Manufacturing and selling red ginseng
Real estate	Selling and renting real estate and others
Others ¹	Manufacturing and selling pharmaceuticals, cosmetics and others, etc

¹For the year ended December 31, 2024, the Group reclassified Renzoluc Pte., Ltd. from Tobacco segment to Others and revised the comparable information.

(b) Details of segment information on sales and operating profit for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 2,359,647	₩ 627,754	₩ 251,596	₩ 183,266	₩ 3,422,263	₩ (383,252)	₩ 3,039,011
Intersegment sales	(281,105)	(92,767)	(7,462)	(1,918)	(383,252)	383,252	-
External sales	2,078,542	534,987	244,134	181,348	3,039,011	-	3,039,011
Operating profit ¹	570,780	26,122	30,317	8,193	635,412	30	635,442
Depreciation and amortization	100,785	24,504	15,504	5,566	146,359	(6,523)	139,836

¹Other income or expenses items not included 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)

	June 30, 2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 2,000,748	₩ 651,660	₩ 132,779	₩ 174,265	₩ 2,959,452	₩ (243,417)	₩ 2,716,035
Intersegment sales	(154,262)	(78,164)	(7,126)	(3,865)	(243,417)	243,417	-
External sales	1,846,486	573,496	125,653	170,400	2,716,035	-	2,716,035
Operating profit ¹	530,705	14,988	7,535	8,495	561,723	(3,160)	558,563
Depreciation and amortization	84,178	23,507	15,592	5,344	128,621	(6,225)	122,396

¹Other income or expenses items not included 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 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)

		June 30, 2025		June 30, 2024	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Revenue recognized at a point in time:					
Tobacco	Wholesale and retail	₩ 1,081,675	₩ 2,053,463	₩ 979,903	₩ 1,825,358
	Direct sales	8,790	25,079	9,973	21,128
Ginseng	Wholesale and retail	138,832	307,524	184,384	336,248
	Direct sales	81,775	227,463	80,692	237,248
Others	Wholesale and retail	92,695	180,419	87,838	169,297
	Direct sales	380	929	494	1,103
Real estate	Sales	5,260	12,592	3,525	10,272
	Subtotal	1,409,407	2,807,469	1,346,809	2,600,654
Revenue recognized over time:					
Real estate	Sales	110,880	179,929	48,259	60,850
	Rental	27,616	51,613	28,706	54,531
	Subtotal	138,496	231,542	76,965	115,381
	Total	₩ 1,547,903	₩ 3,039,011	₩ 1,423,774	₩ 2,716,035

4. Operating Segment (cont'd)

(d) The segment information on assets and liabilities as of June 30, 2025 and December 31, 2024 is as follows:

(in millions of Korean won)

	June 30, 2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 8,676,092	₩ 2,178,562	₩ 1,229,123	₩ 395,736	₩ 12,479,513	₩ (3,215,593)	₩ 9,263,920
Investments in associates and joint ventures	-	-	454,651	30,319	484,970	-	484,970
Subtotal	8,676,092	2,178,562	1,683,774	426,055	12,964,483	(3,215,593)	₩ 9,748,890
Common assets							4,292,834
Total assets							₩ 14,041,724
Acquisition of non-current assets	₩ 363,851	₩ 18,268	₩ 364	₩ 9,676	₩ 392,159	₩ (9,168)	₩ 382,991
Liabilities:							
Segment liabilities	₩ 3,008,391	₩ 242,161	₩ 55,559	₩ 113,715	₩ 3,419,826	₩ (798,010)	₩ 2,621,816
Common liabilities							2,182,285
Total liabilities							₩ 4,804,101

(in millions of Korean won)

	December 31, 2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 8,011,681	₩ 2,256,568	₩ 1,282,788	₩ 388,786	₩ 11,939,823	₩ (2,994,042)	₩ 8,945,781
Investments in associates and joint ventures	-	-	458,891	23,458	482,349	-	482,349
Subtotal	8,011,681	2,256,568	1,741,679	412,244	12,422,172	(2,994,042)	₩ 9,428,130
Common assets							4,497,107
Total assets							₩ 13,925,237
Acquisition of non-current assets	₩ 793,559	₩ 36,046	₩ 2,994	₩ 24,865	₩ 857,464	₩ 16	₩ 857,480
Liabilities:							
Segment liabilities	₩ 2,842,050	₩ 259,695	₩ 56,918	₩ 113,864	₩ 3,272,527	₩ (639,058)	₩ 2,633,469
Common liabilities							1,933,303
Total liabilities							₩ 4,566,772

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

(e) The segment information by region where a customer is located for each of the six-month periods ended June 30, 2025 and 2024 is as follows:

(in millions of Korean won)

	June 30, 2025			June 30, 2024		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 1,891,083	₩ 1,147,928	₩ 3,039,011	₩ 1,755,204	₩ 960,831	₩ 2,716,035
Non-current assets	3,060,468	781,394	3,841,862	3,095,087	374,351	3,469,438

The segment information classified as the Overseas category above is not geographically disaggregated because sales or non-current assets attributable to a specific jurisdiction are not material.

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

5. Trade and Other Receivables

(a) Details of trade and other receivables as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		December 31, 2024	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,408,059	₩ 9,034	₩ 1,363,208	₩ 8,451
Loans	25,087	110,105	70,215	84,080
Other receivables	43,660	-	27,036	2,031
Guarantee deposits	63,083	50,531	78,851	46,960
Accrued income	19,266	484	22,342	51
Total	₩ 1,559,155	₩ 170,154	₩ 1,561,652	₩ 141,573

(b) Details of allowances for doubtful accounts of trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		December 31, 2024	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,592,083	₩ 170,241	₩ 1,603,358	₩ 141,660
Allowances:				
Trade receivables	(30,898)	-	(35,174)	-
Other receivables	(2,030)	(87)	(6,532)	(87)
Total allowances	(32,928)	(87)	(41,706)	(87)
Net trade and other receivables	₩ 1,559,155	₩ 170,154	₩ 1,561,652	₩ 141,573

(c) Changes in allowances for doubtful accounts of trade and other receivables for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025	June 30, 2024
Beginning balance	₩ 41,793	₩ 64,172
Reversal of Impairment loss	(4,304)	(21,051)
Write off	(30)	(643)
Changes in scope of consolidation	(5,006)	-
Net exchange difference and others	562	220
Ending balance	₩ 33,015	₩ 42,698

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 Group's consolidated statements of comprehensive income.

6. Inventories

(a) Details of inventories as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

	June 30, 2025			December 31, 2024		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 65,343	₩ (11,108)	₩ 54,235	₩ 65,557	₩ (8,037)	₩ 57,520
Finished goods	466,318	(35,985)	430,333	411,380	(36,048)	375,332
Half-finished goods and work in progress	1,029,177	(2,173)	1,027,004	1,123,108	(2,559)	1,120,549
Raw materials	964,480	(2,554)	961,926	958,832	(3,458)	955,374
Supplies	97,761	-	97,761	89,360	-	89,360
By-products	10,454	-	10,454	8,800	-	8,800
Buildings under construction	115,782	-	115,782	99,144	-	99,144
Completed buildings	83,402	-	83,402	112,069	-	112,069
Sites for construction of real estate	187,117	-	187,117	212,657	-	212,657
Goods in transit	33,221	-	33,221	70,939	(431)	70,508
Total	₩ 3,053,055	₩ (51,820)	₩ 3,001,235	₩ 3,151,846	₩ (50,533)	₩ 3,101,313

(b) The amounts of loss on valuation and obsolescence of inventories recognized for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Cost of sales:				
Impairment loss on valuation of inventories	₩ 5,626	₩ 1,592	₩ 1,911	₩ 2,734
Loss on obsolescence of inventories	5,153	9,208	2,959	6,659
Other expense:				
Loss on obsolescence of inventories	-	427	38	74
Total	₩ 10,779	₩ 11,227	₩ 4,908	₩ 9,467

7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025	June 30, 2024
Beginning balance	₩ 482,349	₩ 471,327
Acquisition	3,000	15,000
Disposal	-	(23,738)
Changes in scope of consolidation	(108)	-
Shares of net profit or loss	13,831	9,712
Dividends	(14,192)	(1,538)
Changes in equity	90	257
Ending balance	₩ 484,970	₩ 471,020

8. Property, Plant and Equipment

Changes in property, plant and equipment for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025		June 30, 2024	
Beginning balance	₩	2,664,382	₩	2,096,467
Acquisition ¹		348,162		347,094
Disposal/Impairment		(574)		(1,540)
Depreciation		(96,305)		(81,128)
Reclassification, etc. ²		(40,152)		13,583
Ending balance	₩	2,875,513	₩	2,374,476

¹During the six-month period ended June 30, 2025, the Group has capitalized borrowings costs amounting to ₩ 11,098 million (During the six-month period ended June 30, 2024: ₩ 4,985 million) for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 3.7%~9.6% (During the six-month period ended June 30, 2024: 4.1%~5.6%).

²Consists of ₩ 8,699 million of transfers to investment properties and ₩ 19 million of transfers to intangible assets for the six-month period ended June 30, 2025, and ₩ 178 million of transfers to investment properties for the six-month period ended June 30, 2024.

9. Intangible Assets

Changes in intangible assets for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025		June 30, 2024	
Beginning balance	₩	179,681	₩	175,028
Acquisition		13,211		15,405
Disposal/Impairment		(4,269)		(726)
Amortization		(15,980)		(15,305)
Reclassification, etc. ¹		(450)		196
Ending balance	₩	172,193	₩	174,598

¹Consists of ₩ 19 million which was reclassified to intangible assets from property, plant and equipment for the six-month period ended June 30, 2025.

10. Investment Properties

Changes in investment properties for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025		June 30, 2024	
Beginning balance	₩	761,154	₩	1,018,434
Acquisition ¹		1,132		5,375
Disposal/Impairment		(3,615)		(4,520)
Depreciation		(11,162)		(11,799)
Reclassification, etc. ²		(6,290)		(135,479)
Ending balance	₩	741,219	₩	872,011

¹During the six-month period ended June 30, 2025, the Group has capitalized borrowing costs amounting to ₩ 58 million (During the six-month period ended June 30, 2024: ₩ 967 million) for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 3.9%~4.2% (During the six-month period ended June 30, 2024: 4.1%~4.5%).

²Consists of ₩ 8,699 million of transfers from property, plant and equipment and ₩ 14,993 million of transfers to inventories for the six-month period ended June 30, 2025, and ₩ 178 million of transfers from property, plant and equipment and ₩ 135,657 million of transfers to inventories for the six-month period ended June 30, 2024.

11. Right-of-use Assets

Changes in right-of-use assets for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025		June 30, 2024	
Beginning balance	₩	50,498	₩	49,029
Acquisition		20,487		12,684
Disposal/Changes		(2,083)		(468)
Depreciation		(16,389)		(14,164)
Reclassification, etc.		423		1,270
Ending balance	₩	52,936	₩	48,351

12. Borrowings

(a) Details of short-term borrowings as of June 30, 2025 and December 31, 2024 are as follows:

<i>(in millions of Korean won)</i>	Lender	Annual interest rate (%)	June 30, 2025	December 31, 2024
Borrowings	NH Nonghyup Bank	MOR(3 months)+1.00	₩ 160,000	₩ -
	Korea Development Bank Cooperatives	3.66	14,000	14,000
	Citi bank	2.40	5,592	-
		2.43	2,563	-
	Hana Bank	FTP(6 months)+0.612	-	3,000
		FTP(6 months)+0.69	-	200,000
	Hana Bank Shanghai branch	LPR(1 year)-0.35	1,892	6,539
	Shinhan Bank	MOR(6 months)+1.22	-	50,000
		Bank Debenture (6 months)+0.41	10,000	10,000
		Bank Debenture (6 months)+1.05	1,500	-
	Woori Bank	5.97	-	4,000
	Subtotal		195,547	287,539
	Others	4.60~5.00	332	436
	Total		₩ 195,879	₩ 287,975

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2025 and 2024 (Unaudited)



12. Borrowings (cont'd)

(b) Details of the current portion of long-term borrowings and long-term borrowings as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)		June 30, 2025	December 31, 2024
Other financial loan for working capital ¹	NH Nonghyup Bank	2026.06.30~ 2027.06.20	-	₩	26,754	₩ 26,210
Financial agricultural mid.term loan ¹	NH Nonghyup Bank	2028.07.19~ 2029.07.24	-		33,333	32,377
Borrowings	NH Nonghyup Bank	2028.11.21	3.00		11,531	11,370
		2025.12.27~ 2028.12.27	3.00		9,789	9,646
	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67		-	10,000
		2026.05.07	MOR(3 months) +1.93		-	3,518
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66		-	2,500
		2025.12.02	Industrial Financial Debenture (1 year)+1.05		20,000	20,000
		2030.03.20	Industrial Financial Debenture (1 year)+1.36 CP+1.41		10,000	-
	Mirae Asset Capital Co., Ltd.	2026.08.29			46,039	45,843
	IM Bank	2027.05.30	MOR(6 months) +2.18		-	3,492
	Shinhan Bank	2026.05.21	6.50		16,541	11,292
		2027.06.26	Financial Debenture (6 months)+1.75		10,000	-
	Shinhan Card Co., Ltd.	2026.05.21	Financial Debenture (3 years)+1.99		28,800	19,674
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50		14,658	14,425
	OK Savings Bank	2026.05.21	9.00		8,306	8,174
	Korea Investment Savings Bank	2026.05.21	9.00		7,329	7,213
	JT Chinae Savings Bank	2026.05.21	9.00		6,840	6,732
	The K Savings Bank	2026.05.21	9.00		4,886	4,808
	BNK Savings Bank	2026.05.21	9.00		4,886	4,808
	Choeun Savings Bank	2026.05.21	9.00		2,932	2,885
	Insung Savings Bank	2026.05.21	9.00		1,954	1,923
	Incheon Savings Bank	2026.05.21	9.00		1,954	1,923
Others	Korea SMEs And Startups Agency	2026.06.30~ 2027.09.27	2.82~3.07		223	275
	Others	2025.08.04~ 2025.10.30	4.60		1,071	1,071
	Total			₩	267,826	₩ 250,159
Consolidated statements of financial position:						
Current				₩	136,516	₩ 36,191
Non.current					131,310	213,968
	Total			₩	267,826	₩ 250,159

¹The above loans are Contractual Cultivation Fund for Ginseng-Integration Project provided as the policy fund for facilitating agriculture, forestry and fisheries sectors by the Ministry of Agriculture, Food and Rural Affairs of the Republic of Korea. Therefore, the interest rate on the loan is 0%, and the amount of present value discounts is recognized as government grants after calculating the present value.

(c) As discussed in Note 23. (c) to the consolidated financial statements, the Group has provided collateral for the above borrowings.

13. Bonds

(a) Details of bonds as of June 30, 2025 and December 31, 2024 are as follows:

<i>(in millions of Korean won)</i>	Issuance date	Maturity	Annual interest rate (%)		June 30, 2025	December 31, 2024
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
3-1 st non-guarantee public bonds	2024.04.25	2026.04.24	3.624		50,000	50,000
3-2 nd non-guarantee public bonds	2024.04.25	2027.04.23	3.763		150,000	150,000
3-3 rd non-guarantee public bonds	2024.04.25	2029.04.25	3.808		100,000	100,000
4-1 st non-guarantee public bonds	2024.10.08	2026.10.08	3.218		80,000	80,000
4-2 nd non-guarantee public bonds	2024.10.08	2027.10.08	3.306		160,000	160,000
4-3 rd non-guarantee public bonds	2024.10.08	2029.10.08	3.335		70,000	70,000
Foreign Currency-Denominated Senior Unsecured Notes	2025.05.02	2028.05.02	5.000		406,920	-
	Subtotal				1,316,920	910,000
	Discount				(4,347)	(2,066)
	Total			₩	1,312,573	₩ 907,934
Current				₩	149,879	₩ 99,895
Non-current					1,162,694	808,039
	Total			₩	1,312,573	₩ 907,934

(b) Convertible bonds

Details of the book values of convertible bonds issued by the Group as of June 30, 2025 and December 31, 2024 are as follows:

<i>(in millions of Korean won)</i>		June 30, 2025		December 31, 2024
Face value	₩	30,300	₩	30,300
Redemption premium		1,233		1,233
Conversion right adjustment		(1,908)		(4,145)
Total	₩	29,625	₩	27,388
Current	₩	29,625	₩	27,388
Non-current		-		-
Total	₩	29,625	₩	27,388

13. Bonds (cont'd)

Details of issuance condition of convertible bonds issued by the Group as of June 30, 2025 are as follows:

Classification	Details
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	<p>(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)]</p> <p>A: Number of outstanding shares, B: Number of newly issued shares, C: Issue price per share, D: Market price</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>
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	-

14. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Defined benefit plans:				
Current service cost	₩ 13,068	₩ 26,214	₩ 12,151	₩ 24,291
Net interest on net defined benefit liabilities (assets)	373	742	(193)	(399)
Past service cost and gain and loss on settlement	-	-	(18)	-
Subtotal	13,441	26,956	11,940	23,892
Defined contribution plan:				
Contributions recognized as expense	1,882	5,344	1,520	3,922
Other long-term employee benefits:				
Current service cost, etc.	222	2,136	6,878	8,382
Termination benefits:				
Voluntary retirements, etc.	(4)	57,788	43	1,627
Total	₩ 15,541	₩ 92,224	₩ 20,381	₩ 37,823

(b) Details of net defined benefit liabilities (assets) as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

	June 30, 2025	December 31, 2024
Present value of defined benefit obligations	₩ 621,623	₩ 635,837
Fair value of plan assets	(566,150)	(601,285)
Total	₩ 55,473	₩ 34,552

15. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		December 31, 2024	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,343	₩ -	₩ 6,194	₩ -
Refund liabilities	16,005	6,833	13,925	6,917
Provision for site restoration	1,657	594	1,561	679
Provision for financial guarantee	22	151	7	25
Provision for greenhouse gases	-	-	13	-
Provision for others	17,876	2	17,380	2
Total	₩ 36,903	₩ 7,580	₩ 39,080	₩ 7,623

(b) Changes in refund liabilities and provisions for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 6,194	₩ 3,554	₩ (8,405)	₩ 1,343
Refund liabilities	20,842	13,638	(11,642)	22,838
Provision for site restoration	2,240	97	(86)	2,251
Provision for financial guarantee	32	174	(33)	173
Provision for greenhouse gases	13	13	(26)	-
Provision for others	17,382	1,972	(1,476)	17,878
Total	₩ 46,703	₩ 19,448	₩ (21,668)	₩ 44,483

(in millions of Korean won)

	June 30, 2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 1,089	₩ (1,375)	₩ 1,494
Refund liabilities	17,310	5,671	(1,453)	21,528
Provision for site restoration	2,217	42	(86)	2,173
Provision for financial guarantee	44	-	(22)	22
Provision for greenhouse gases	51	42	-	93
Provision for others	16,928	-	(150)	16,778
Total	₩ 38,330	₩ 6,844	₩ (3,086)	₩ 42,088

16. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sale contracts for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	June 30, 2025		Revenue (cumulative) ²	Revenue (period) ³	Cost (cumulative) ⁴
				Total sales value ¹	Total sales contract value			
Suwon hwaseo prugio briciel	June 2020	September 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonghansesang Daejeon Station Centum Vista	December 2022	June 2026	72.01	226,951	192,719	138,182	18,609	117,472
Nokbeon-dong Mixed-Use apartment building	April 2023	April 2025	100.00	31,660	27,161	27,160	4,653	16,583
Elif Mia Station Complex 1	May 2023	August 2026	55.69	61,562	44,907	24,877	6,229	19,271
Elif Mia Station Complex 2	May 2023	August 2026	51.73	155,141	109,786	56,595	13,945	42,961
ePyeonghansesang Pyeongchon Urban Valley	April 2024	October 2026	40.89	399,869	397,970	162,302	61,369	100,256
Digital Empire Pyeongchon Biz Valley	April 2024	March 2027	39.66	352,769	223,836	75,662	55,275	64,334
Anyang-dong Mixed-Use apartment building	January 2025	May 2026	47.75	42,044	41,574	19,851	19,849	17,694
Total				₩ 2,073,052	₩ 1,785,923	₩ 1,252,575	₩ 179,929	₩ 716,672

¹ Includes 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 in time when the construction is completed and control of the goods is transferred to the customer.

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

³ Excludes the revenue of ₩ 12,592 million recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer for the six-month period ended June 30, 2025.

⁴ Excludes cumulative costs of ₩ 292,817 million for common infrastructure.

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

(in millions of Korean won)

				June 30, 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	44.54	226,951	193,218	85,924	21,540	71,738
Nokbeon-dong Mixed-use apartment building	April 2023	February 2025	55.77	29,720	25,220	14,066	5,184	9,215
Elif Mia station Complex 1	May 2023	August 2026	26.33	61,562	39,512	10,357	3,128	7,704
Elif Mia station Complex 2	May 2023	August 2026	25.40	155,141	107,098	27,144	9,056	19,574
ePyeonghansang Pyeongchon Urban Valley	April 2024	October 2026	6.15	399,856	348,757	21,462	21,462	12,937
Digital Empire Pyeongchon Biz Valley	April 2024	March 2027	8.31	352,768	5,778	480	480	325
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				₩ 2,836,887	₩ 2,209,832	₩ 1,622,901	₩ 60,850	₩ 912,036

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 in time when the construction is completed and control of the goods is transferred to the customer.

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

³Excludes the revenue of ₩ 10,272 million recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer for the six-month period ended June 30, 2024.

⁴Excludes cumulative costs of ₩ 228,098 million for common infrastructure.

⁵As of June 30, 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.

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

(b) Details of receivables and payables for ongoing real estate pre-sale contracts as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

Construction project	June 30, 2025			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon hwaseo prugio briel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonghansesang Daejeon Station Centum Vista	138,182	29,789	109,106	713
Nokbeon-dong Mixed-Use apartment building	27,160	12,610	14,550	-
Elif Mia Station Complex 1	24,877	5,406	19,557	86
Elif Mia Station Complex 2	56,595	13,133	43,679	217
ePyeonghansesang Pyeongchon Urban Valley	162,302	67,541	95,379	618
Digital Empire Pyeongchon Biz Valley	75,662	17,776	57,886	-
Anyang-dong Mixed-Use apartment building	19,851	-	19,851	-
Total	₩ 1,252,575	₩ 893,616	₩ 360,595	₩ 1,636

¹As of June 30, 2025, due from customers for contract assets is ₩ 349,657 million and it will be reclassified to receivables in accordance with the billing schedule on the contract.

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

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

(in millions of Korean won)

December 31, 2024

Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon hwaseo prugio briel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonghansesang Daejeon Station Centum Vista	119,573	30,048	90,240	715
Nokbeon-dong Mixed-Use apartment building	22,507	12,610	9,897	-
Elif Mia Station Complex 1	18,649	5,339	13,396	86
Elif Mia Station Complex 2	42,650	13,131	29,736	217
ePyeonghansesang Pyeongchon Urban Valley	100,933	47,906	53,284	257
Digital Empire Pyeongchon Biz Valley	20,388	6,352	14,036	-
Gwacheon sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	₩ 1,788,168	₩ 1,578,269	₩ 211,176	₩ 1,277

¹As of December 31, 2024, due from customers for contract assets is ₩ 200,870 million and it will be reclassified to receivables in accordance with the billing schedule on the contract.

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

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the six-month period ended June 30, 2025. 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 June 30, 2025, and subject to probable changes in the future.

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

June 30, 2025

December 31, 2024

Construction project	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 briel	₩ -	₩ 806	₩ -	₩ 806
ePyeonghansesang Daejeon Station Centum Vista	-	105	-	105
Elif Mia Station Complex 1	-	812	-	575
Elif Mia Station Complex 2	-	4,467	-	4,332
Sangbong Station Uora First Live and Four Square	9,549	258	9,549	131
Goyang Hyangdong district knowledge industry center	-	-	-	433
Total	₩ 9,549	₩ 6,448	₩ 9,549	₩ 6,382

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

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17. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Salaries	₩ 125,930	₩ 256,842	₩ 125,614	₩ 255,045
Retirement and termination benefits	8,885	68,853	8,781	19,146
Employee welfare	25,596	45,144	24,773	42,757
Travel expenses	7,775	14,875	5,978	10,626
Communication cost	1,936	3,601	1,395	2,952
Utilities	2,995	7,228	3,190	7,759
Taxes and dues	24,814	28,678	22,726	29,325
Supplies	1,506	3,222	1,509	2,666
Rent	4,443	9,470	3,913	8,630
Depreciation	18,013	35,845	15,551	30,267
Amortization	5,393	11,974	5,933	11,859
Repairs and maintenance	3,042	4,912	2,100	4,123
Vehicles	1,848	3,699	1,714	3,327
Insurance	1,264	2,278	881	1,838
Commissions	80,361	170,994	86,959	185,318
Freight and custody	17,519	36,340	16,853	34,023
Conferences	1,625	3,034	1,206	2,682
Advertising	59,844	135,580	80,364	139,231
Education and training	1,367	4,230	1,665	3,228
Prizes and rewards	1,018	1,663	370	903
Cooperation	344	674	323	562
Research and development	13,291	26,523	12,998	24,945
Reversal of impairment loss on trade receivables	(6,303)	(5,030)	(32,667)	(21,445)
Total	₩ 402,506	₩ 870,629	₩ 392,129	₩ 799,767

18. Other Income and Expense

(a) Details of other income for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Gain on foreign currency transaction	₩ 22,155	₩ 29,969	₩ 25,881	₩ 38,683
Gain on foreign currency translation	14,953	79,734	89,970	209,496
Gain on valuation of derivatives	42,128	42,533	54	89
Reversal of impairment loss on other receivables	-	28	-	-
Gain on disposal of property, plant and equipment	207	520	189	325
Gain on disposal of intangible assets	-	4	3	4
Gain on disposal of investment properties	5,001	5,001	6,837	11,805
Gain on lease contract adjustments	21	452	131	189
Gain on disposal of right-of-use assets	29	286	-	-
Miscellaneous income	1,922	6,141	6,150	12,283
Total	₩ 86,416	₩ 164,668	₩ 129,215	₩ 272,874

(b) Details of other expense for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Loss on foreign currency transaction	₩ 37,110	₩ 51,490	₩ 7,805	₩ 15,679
Loss on foreign currency translation	217,795	262,868	17,261	33,632
Loss on disposal of investments in subsidiaries	336	336	-	-
Loss on valuation of derivatives	-	2,337	10,980	24,033
Loss on impairment of other receivables	659	726	507	394
Loss on disposal of property, plant and equipment	193	467	19	87
Loss on impairment of property, plant and equipment	-	-	605	605
Loss on disposal of intangible assets	69	295	227	387
Loss on impairment of intangible assets	113	326	178	219
Loss on disposal of investment properties	250	250	-	55
Donations	3,129	4,015	730	1,876
Loss on lease contract adjustments	28	41	39	44
Miscellaneous loss	2,124	3,830	45	2,556
Total	₩ 261,806	₩ 326,981	₩ 38,396	₩ 79,567

19. Finance Income and Costs

Details of finance income and costs for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Finance income:				
Interest income ¹	₩ 26,026	₩ 54,213	₩ 27,980	₩ 54,769
Dividend income	5,892	8,713	5,951	8,840
Gain on valuation of financial assets measured at fair value through profit or loss	2,455	6,288	3,167	13,472
Gain on disposal of financial instruments	1,136	1,461	18	18
Total finance income	₩ 35,509	₩ 70,675	₩ 37,116	₩ 77,099
Finance costs:				
Interest expense	₩ 18,501	₩ 30,972	₩ 8,587	₩ 18,211
Loss on valuation of financial assets measured at fair value through profit or loss	5,573	9,646	7,320	10,650
Total finance costs	₩ 24,074	₩ 40,618	₩ 15,907	₩ 28,861
Net finance income	₩ 11,435	₩ 30,057	₩ 21,209	₩ 48,238

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

20. Income Tax Expense and Deferred Tax Asset

(a) Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for each of the six-month periods ended June 30, 2025 and 2024 are 23.03% and 24.85%, respectively.

(b) The Group is subject to Pillar Two income taxes. As of June 30, 2025, 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.

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21. Related Parties

(a) Details of the Group's related parties as of June 30, 2025 and December 31, 2024 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			June 30, 2025	December 31, 2024
Associates	LifePharmTech Co., Ltd. ¹	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd. ¹	Korea	18.95	18.95
	KOCREF 36 REIT	Korea	21.01	21.01
	KOCREF 41 REIT	Korea	26.47	26.47
	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 ⁴	Korea	50.00	50.00
	KB KT&G New Growth Fund I ⁵	Korea	66.67	66.67
Joint ventures	KORAMCO Europe Private REIT			
	3-2 Fund ⁶	Korea	51.35	51.35
	Starfield Suwon, Inc.	Korea	50.00	50.00
	Sangsang Loft Co., Ltd. ⁷	Korea	50.00	50.00
Others	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd. ⁸	Korea	-	35.00
	Others ⁸	Korea	-	-

¹The Group classified its interests in the entities as investment in associates, as the Group is deemed to have significant influence over such entities and has the right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage of less than 20%.

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 June 30, 2025, the liquidation procedures are in progress.

⁴The Group classified its interest in the entity as investment in associates, as there are no arrangements that incur joint control among the partners, notwithstanding its consolidated ownership percentage of 50%.

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

⁶The Group classified its interest in the entity as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁷For the year ended December 31, 2024, the Group established Sangsang Loft Co., Ltd. with Zero To N Architects & Engineers General Construction Co., Ltd. at 50:50 ratio. The Group classified its interests in the entity as investment in joint ventures.

⁸The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party as the Group acquired DNC Deogeun Co., Ltd. as subsidiary during the year ended December 31, 2023. The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2025.

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21. Related Parties (cont'd)

(b) The Group carries out transactions with its related parties, such as sales of goods and provision of services, etc. Details of the transactions with the related parties for each of the three-month and six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2025				June 30, 2024			
		Sales and other income		Purchase and other expenses		Sales and other income		Purchase and other expenses	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Associates	KOCREF 36 REIT	₩ 600	₩ 600	₩ -	₩ -	₩ 600	₩ 600	₩ -	₩ -
	KOCREF 41 REIT	1,167	1,167	-	-	938	938	-	-
	INNODIS Co., Ltd.	-	-	-	25	-	-	73	147
	Cheongna Medipolis PFV Co., Ltd.	300	679	-	-	33	33	-	-
Joint ventures	Starfield Suwon Inc.	4,095	4,095	643	670	-	-	26	48
	SangSang Loft Co., Ltd.	1	2	-	-	-	-	-	-
Others	Others ¹	-	1,546	-	-	1,246	2,354	-	-
	Total	₩ 6,163	₩ 8,089	₩ 643	₩ 695	₩ 2,817	₩ 3,925	₩ 99	₩ 195

¹ The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2025.

(c) Details of account balances of receivables and payables with the related parties as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2025		December 31, 2024	
		Receivables	Payables	Receivables	Payables
Associate	INNODIS CO., LTD.	₩ -	₩ 25	₩ -	₩ 27
Joint venture	Starfield Suwon, Inc.	125	10	98	10
	SangSang Loft Co., Ltd.	-	2	-	2
Others	Others ^{1,2}	-	-	51,259	113
	Total	₩ 125	₩ 37	₩ 51,357	₩ 152

¹ The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2025.

² Presented in the gross amount before deducting loss allowance of ₩ 4,971 million as of December 31, 2024.

(d) Details of fund transactions with the related parties for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2025				June 30, 2024			
		Equity investment	Loan	Recovery	Dividends	Equity investment	Loan	Equity recovery	Dividends
Associates	KOCREF 36 REIT	₩ -	₩ -	₩ -	₩ 600	₩ -	₩ -	₩ -	₩ 600
	KOCREF 41 REIT	-	-	-	1,167	-	-	-	938
	KB KT&G New Growth Fund 1	3,000	-	-	-	-	-	-	-
Joint ventures	Starfield Suwon, Inc.	-	-	-	12,425	15,000	-	-	-
Others	AndaStation Professional Investment Private REIT No. 1 ¹	-	-	-	-	-	-	23,738	-
	Others ²	-	4,702	1,217	-	-	5,870	-	-
	Total	₩ 3,000	₩ 4,702	₩ 1,217	₩ 14,192	₩ 15,000	₩ 5,870	₩ 23,738	₩ 1,538

¹ The Group excluded the entity from its related parties, as the entity was disposed of during the six-month period ended June 30, 2024.

² The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. during the six-month period ended June 30, 2025.

21. Related Parties (cont'd)

(e) The Group established Starfield Suwon Inc., a 50:50 joint venture with Shinsegae Property Inc., for the year ended December 31, 2018. The disposal of the shares is restricted for 5 years from the date Starfield Suwon Inc.'s temporary operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

(f) The Group has entered into a contribution agreement in relation to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of June 30, 2025, 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. In addition, when transfer of equity shares in Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, should also be transferred.

(g) The Parent Company is required to obtain the unanimous consent of other shareholders for disposal of the equity shares of Gwacheon Sangsang PFV. Inc and Sangsang Loft Co., Ltd.

(h) As of June 30, 2025, the Group has entered into a capital call agreement in relation to KORAMCO Europe Private REIT 3-2 Fund. The agreement may incur a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

(i) The Group has entered into a capital contribution agreement in relation to Mirae Asset KT&G Investment Fund I and KB KT&G New Growth Fund 1, with the ceiling of ₩ 30,000 million. As of June 30, 2025, the remaining contribution amount is ₩ 9,000 million, and the detailed timeline for contribution is yet to be determined (see Note 23 (d)).

(j) The Parent Company has a joint disposal right to require other investors to dispose of 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 of the shares by obtaining the approvals from the Board of Directors and Shareholders, the Parent Company has the right of first refusal to purchase the shares under the condition notified by those shareholders. However, the right of first refusal is not an obligation, and the other investors will have delegated their right to dispose of the shares to the Parent Company.

(k) As of June 30, 2025, the Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd (see Note 23 (c)).

(l) Key management personnel compensation for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
Long and short-term employee benefits	₩	12,459	₩	13,798
Retirement benefits		1,232		1,188
Total	₩	13,691	₩	14,986

22. Risk Management and Fair Value of Financial Instruments

In relation to the financial instruments, the Group is exposed to the market risk, credit risk and liquidity risk. The purpose of risk management of the Group is to identify potential risks affecting the financial performance of the Group and to eliminate, avoid and reduce them to an acceptable level. The Group prepares and 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 Group'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 that of the previous fiscal year.

(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 market risk exposures to be within the acceptable limits, while optimizing the 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 risk of foreign currency fluctuations to the Korean won on a regular basis.

② Price risk

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

22. 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, bonds, 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 June 30, 2025, 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 in which 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. To manage such credit risk, the Group's management only transacts with parties with 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 transaction parties using the financial information disclosed when 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 contraction party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay.

As of June 30, 2025 and December 31, 2024, the carrying amount of financial assets is the maximum exposure to credit risk.

(c) Liquidity risk

The Group is exposed to liquidity risk in which it will face difficulty in meeting 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 it can repay the financial liabilities using cash flows from operating activities and cash inflows from financial assets.

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

(d) Details of the carrying amounts of each category of financial instrument as of June 30, 2025 and December 31, 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025	December 31, 2024
Financial assets:		
Financial assets measured at fair value through profit or loss ¹	₩ 671,152	₩ 582,870
Financial assets measured at fair value through other comprehensive income or loss	262,054	211,693
Derivative assets	18,127	-
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	1,074,755	1,135,967
Other financial assets	386,909	494,021
Trade and other receivables	1,729,309	1,703,225
Long-term deposits	1,557,856	1,705,504
Subtotal	4,748,829	5,038,717
Total financial assets	₩ 5,700,162	₩ 5,833,280
Financial liabilities:		
Derivative liabilities	₩ 123	₩ 32,801
Financial liabilities measured at amortized cost		
Short-term borrowings	195,879	287,975
Long-term borrowings	267,826	250,159
Bonds	1,312,573	907,934
Convertible bonds	29,625	27,388
Trade and other payables	1,265,368	1,308,373
Lease liabilities	50,130	48,746
Liabilities for non-controlling interests	6,720	7,072
Subtotal	3,128,121	2,837,647
Total financial liabilities	₩ 3,128,244	₩ 2,870,448

¹As of June 30, 2025, money market trust amounting to ₩ 64,776 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss (December 31, 2024: ₩ 1 million).

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

(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

Details of the fair values measurements classified by fair value hierarchy as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

(in millions of Korean won)		June 30, 2025							
		Carrying amount		Fair value					
				Level 1		Level 2		Level 3	
Financial assets measured at fair value through profit or loss		₩	671,152	₩	-	₩	314,522	₩	356,630
Financial assets measured at fair value through other comprehensive income or loss			262,054		252,791		-		9,263
Derivative assets			18,127		-		18,127		-
Total financial assets		₩	951,333	₩	252,791	₩	332,649	₩	365,893
Derivative liabilities		₩	123	₩	-	₩	123	₩	-

(in millions of Korean won)

(in millions of Korean won)		December 31, 2024							
		Carrying amount		Fair value					
				Level 1		Level 2		Level 3	
Financial assets measured at fair value through profit or loss		₩	582,870	₩	-	₩	231,324	₩	351,546
Financial assets measured at fair value through other comprehensive income or loss			211,693		202,430		-		9,263
Total financial assets		₩	794,563	₩	202,430	₩	231,324	₩	360,809
Derivative liabilities		₩	32,801	₩	-	₩	32,801	₩	-

There was no movement between the levels of fair value hierarchy for the six-month period ended June 30, 2025 and year ended December 31, 2024.

As of June 30, 2025 and December 31, 2024, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and the discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique.

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

Changes in Level 3 fair value for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025		June 30, 2024	
Beginning balance	₩	360,809	₩	397,255
Acquisition		16,385		21,735
Disposal		(2,423)		(34,089)
Changes in fair value		(8,878)		(995)
Others		-		(4,959)
Ending balance	₩	365,893	₩	378,947

(f) Details of net gains or losses by category of financial instrument for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)

	June 30, 2025					
	Financial assests measured at fair value through profit or loss	Financial assests 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	₩ -	₩ -	₩ -	₩ 54,213	₩ -	₩ 54,213
Dividend income	4,596	4,117	-	-	-	8,713
Loss on valuation	(3,358)	-	40,196	-	-	36,838
Gain on disposal	1,461	-	-	-	-	1,461
Interest expense	-	-	-	-	(30,972)	(30,972)
Reversal of impairment loss	-	-	-	4,332	-	4,332
Gain on lease contract adjustments	-	-	-	-	411	411
Total	₩ 2,699	₩ 4,117	₩ 40,196	₩ 58,545	₩ -30,561	₩ 74,996
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 50,361	₩ -	₩ -	₩ -	₩ 50,361
Total	₩ -	₩ 50,361	₩ -	₩ -	₩ -	₩ 50,361

(in millions of Korean won)

	June 30, 2024					
	Financial assests measured at fair value through profit or loss	Financial assests 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	₩ -	₩ -	₩ -	₩ 54,769	₩ -	₩ 54,769
Dividend income	4,571	4,269	-	-	-	8,840
Gain or loss on valuation	2,822	-	(23,944)	-	-	(21,122)
Gain on disposal	18	-	-	-	-	18
Interest expense	-	-	-	-	(18,211)	(18,211)
Reversal of impairment loss	-	-	-	21,051	-	21,051
Gain on lease contract adjustments	-	-	-	-	145	145
Total	₩ 7,411	₩ 4,269	₩ -23,944	₩ 75,820	₩ -18,066	₩ 45,490
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 14,327	₩ -	₩ -	₩ -	₩ 14,327
Total	₩ -	₩ 14,327	₩ -	₩ -	₩ -	₩ 14,327

23. Contingent Liabilities and Commitments

(a) Litigation cases

As of June 30, 2025, the Group has 17 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 174,841 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of June 30, 2025.

(b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of June 30, 2025 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	211,200	77,802
Derivatives trading ¹	Hana Bank and five other	USD	244,085	23,027
Trade receivables factoring agreement	Hana Bank	KRW	5,000	85
Insurance Contract for Compensation of Consumer Damages in Sponsored Door-to-Door Sales	Korea Special Sales Financial Cooperative Association	KRW	507	-
Others	Korea Development Bank and six others	KRW	1,043,010	365,335
	Hana Bank Shanghai branch	CNY	10,000	10,000

¹Derivatives are composed of foreign exchange forward contracts and are held for trading as of June 30, 2025.

As of June 30, 2025, the Group has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 172,023 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

23. Contingent Liabilities and Commitments (cont'd)

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Group as of June 30, 2025 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
Hana Bank	KRW	31,000	Payment guarantee for tobacco consumption tax
Korea Housing & Urban Guarantee Corporation	KRW	238,332	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	31,764	License guarantee, etc.
Unified Customs Guarantor JSC	RUB	3,027,775	Payment guarantee on customs
Ameria Bank	USD	500	Trade receivables payment guarantee
ARCH	USD	45	License bond payment guarantee
Garanti Bank and one other	TRY	265,000	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves
Alfa Bank	RUB	1,900,000	Trade receivables payment guarantee

As of June 30, 2025, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 375,000 thousand) for import clearance. The Group has a recourse liability up to the limit of TWD 1,261,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Group to other parties as of June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	June 30, 2025		December 31, 2024		Details of guarantee
		Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of ePyeonghansesang Daejeon station Centum Vista	Hana Bank	₩ 8,000	₩ 1,766	₩ 8,000	₩ 1,774	Loan guarantee for the intermediate payment of off-plan sales construction ¹
Buyer of Digital Empire Pyeongchon Biz Valley	Hana Bank	66,960	19,512	9,960	4,046	Loan guarantee for the contract deposit

¹The limit amount of the loan guarantee for the intermediate payment of off-plan sales construction excludes the portion of guarantees provided by Korea Housing & Urban Guarantee Corporation.

23. Contingent Liabilities and Commitments (cont'd)

Details of assets pledged as collateral as of June 30, 2025 are as follows:

(in millions of Korean won)	Carrying amount		Debt amount		Collateralized amount		Collateral holder		Type
Property, plant and equipment	₩	80,139	₩	40,000	₩	75,600	Korea Development Bank	Long term borrowings and limit loan	
		19,142		25,500		39,000	Shinhan Bank and two other	Short-term borrowings	
		28,639		-		2,400	Korea Development Bank	Collateral for limit loan agreement	
Investment properties		281,147		18,809		21,059	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts	
Other financial assets		56,111		46,500		55,800	Mirae Asset Capital Co.,Ltd.	Long-term borrowings ¹	
		5,203		-		5,203	Korea Land & Housing Corporation	Establishment of a pledge for property development	
		37,880		36,070		37,880	Suwon City	Establishment of a pledge for suwon daeyupyeong district underpass	
		600		-		720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	
		100		100		100	Kyobo Book Center Co.,Ltd.	Establishment of a pledge for leasehold deposits	
Financial assets measured at fair value through profit or loss		5,090		-		5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	
Pledge of profit rights		-		152,100		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 ²	
Investments in associates		-		-		5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo Project Financing Vehicle Co., Ltd. ³	
Total	₩	514,051	₩	319,079	₩	430,868			

¹ As of June 30, 2025, the Group has provided investment properties under real estate collateral trust agreements and insurance claim rights under insurance claim pledge agreements as collateral for borrowings.

² As of June 30, 2025, the Group has provided priority beneficiary certificates under managed land trust agreements as collateral for borrowings. The amount of debt consists of a PF loan limit of ₩ 118,000 million and the initial estimated cost of the contract construction of ₩ 34,100 million.

³ Equity 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 June 30, 2025 and December 31, 2024 are as follows:

(in millions of Korean won)		June 30, 2025		December 31, 2024	
Other financial assets	Establishment of a pledge for property development	₩	5,203	₩	5,203
	Establishment of a pledge for leasehold deposits		100		100
	Establishment of a pledge for suwon daeyupyeong district underpass		37,880		-
	Deposit in the Accompanied Growth Cooperation Loan Fund		100,000		100,000
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit		600		600
	Security deposits for checking accounts, etc.		4		4
	Payment guarantee on import customs		466		-
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit		5,090		5,040
Financial assets measured at fair value through profit or loss	Total	₩	149,343	₩	110,947

As of June 30, 2025, cash and cash equivalents and short-term financial instruments of ₩ 16,928 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 has not yet been incurred as of June 30, 2025 is ₩ 316,002 million.

23. Contingent Liabilities and Commitments (cont'd)**(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 used for 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 ₩ 1,557,856 million in long-term deposits for MSA Escrow Fund as of June 30, 2025 (as of December 31, 2024: ₩ 1,705,504 million), and they consist of US Treasury bond, and demand deposits. For the six-month period ended June 30, 2025, refund of the funds that have been deposited for 25 years from the date of deposit was initiated.

The Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of June 30, 2025, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 130,850 million and ₩ 57,614 million, respectively (as of December 31, 2024: ₩ 100,605 million and ₩ 35,206 million, respectively).

As of June 30, 2025, the Group has a management 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 established Starfield Suwon Inc., a 50:50 joint venture with Shinsegae Property Inc., for the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc.'s temporary operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

As of June 30, 2025, the Group has entered into currency hedge capital call agreement in relation to the Group's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate. The amount of payment obligation during the six-month period ended June 30, 2025 is ₩ 11,170 million.

The Group has entered into a capital contribution agreement in relation to the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1 and Smilegate New Deal Fund, etc., with the ceiling of ₩ 126,000 million and USD 37,000 thousand. As of June 30, 2025, the remaining contribution amount is ₩ 24,286 million and USD 15,838 thousand, and the detailed timeline for contribution is yet to be determined.

23. Contingent Liabilities and Commitments (cont'd)

The Group has entered into a contribution agreement in relation to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of June 30, 2025, 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. In addition, in the event of transfer of equity shares in Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, should also be transferred.

The Parent Company is required to obtain the unanimous consent of other shareholders for disposal of the equity shares of Gwacheon Sangsang PFV. Inc. and Sangsang Loft Co., Ltd.

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.

The Parent Company has a joint disposal right to demand other investors to dispose of 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 of the shares by obtaining the approvals from the Board of Directors and Shareholders, the Parent Company has the right of first refusal to purchase the shares under the condition notified by those shareholders. However, the right of first refusal to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose of the shares, to the Parent Company.

As of June 30, 2025, the Group is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contracts (ePyeonhansesang Daejeon Station Centum Vista, etc.) proceeded by the Group.

As of June 30, 2025, in relation to new construction of Nokbeon-dong Mixed-use building by the Group, the land and accompanying buildings are pledged as collateral and superficies for the land by Korea Land & Housing Corporation and the maximum claim amount is ₩ 15,341 million.

The Group is obligated to return infrastructure such as roads and neighboring 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 were completed in September 2023, additional expected costs due to fulfillment of infrastructure-related obligations were reflected in construction costs for the year ended December 31, 2024 (See Note 16).

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.

23. Contingent Liabilities and Commitments (cont'd)

In relation to the sales project of Digital Empire Pyeongchon Biz Valley and ePyeonhansesang 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 June 30, 2025, in relation to the ePyeonhansesang Daejeon Station Centum Vista sales project, the Group has agreed with the constructor (DL Construction Co., LTD.) to compensate for the debts incurred by the purchaser due to termination of the contract for reasons attributable to purchaser and failure to repay borrowings amounting to ₩ 5,954 million.

During the year ended December 31, 2022, in relation to the construction of residential and commercial complexes in Sangbong-dong, the Group has reached an agreement with Bando Engineering & Construction Co., Ltd. to resolve the dispute over increase in construction costs related to the permission for change through arbitration judgement ordered by Korea Commercial Arbitration Board. For the progress of 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 June 30, 2025.

During the six-month period ended June 30, 2025, the Parent Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Cosmococ Co., Ltd. and KT&G Tutun Mamulleri Sanayi ve Ticaret A.S to provide operating funds and other management-related business support.

As of June 30, 2025, 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 investigation is underway. The Parent Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of June 30, 2025.

The Parent Company is engaged in manufacturing and selling tobacco in Russia. As of June 30, 2025, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of June 30, 2025.

According to the project finance loan agreement for the Gangnam Station business complex development project as of June 30, 2025, in the event of a trigger clause, such as a failure to pay the loan principal and interest, the Parent Company's subsidiaries may lose all rights related to the project and may be subject to measures such as transferring all rights related to the project to a person designated by the agent financial institution.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2025 and 2024 (Unaudited)



24. Cash Flows

Details of cash generated from operations for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

(in millions of Korean won)		June 30, 2025	June 30, 2024
Profit for the period	₩	401,443	₩ 598,373
Operating profit from continuing operations		405,170	601,896
Operating loss from discontinued operation		(3,727)	(3,523)
Adjustments:			
Employee welfare		2,728	8,915
Retirement benefits and termination benefits		54,109	23,892
Loss on valuation or obsolescence of inventories		11,227	9,467
Depreciation		123,856	107,091
Amortization		15,980	15,305
Reversal of impairment loss on trade and other receivables		(4,304)	(21,051)
Loss on foreign currency translation		262,868	33,632
Loss on valuation of derivatives		2,337	24,033
Loss on disposal of property, plant and equipment		467	87
Loss on impairment of property, plant and equipment		-	605
Loss on disposal of intangible assets		295	387
Loss on impairment of intangible assets		326	219
Loss on disposal of investment properties		250	55
Loss on disposal of investments in subsidiaries		336	-
Other expenses, etc		10,460	5,782
Finance cost		40,618	28,861
Share based payment expense		1,412	625
Income tax expense		121,217	197,859
Gain on foreign currency translation		(79,734)	(209,496)
Gain on valuation of derivatives		(42,533)	(89)
Gain on disposal of property, plant and equipment		(520)	(325)
Gain on disposal of intangible assets		(4)	(4)
Gain on disposal of right-of-use assets		(286)	-
Gain on disposal of investment properties		(5,001)	(11,805)
Other income, etc.		(8,448)	(3,796)
Finance income		(70,777)	(77,148)
Increase of investments in associates and joint ventures due to share of net gain/loss		(13,831)	(9,712)
Changes in working capital:			
Decrease (increase) in trade and other receivables		(19,062)	77,572
Increase in derivatives		(10,609)	(10,380)
Decrease in inventories		73,414	71,026
Increase in accrued tobacco excise and other taxes		(84,003)	(135,802)
Increase in advance payments		(87,322)	(135,010)
Increase in prepaid expenses		(30,022)	(43,817)
Increase (decrease) in trade and other payables		(115,824)	58,472
Increase in advance receipts		154	19,350
Increase in tobacco excise and other taxes payables		55,963	131,292
Increase in provision for site restoration		22	-
Decrease in net defined benefit liabilities		(10,716)	(9,926)
Cash generated from operations	₩	596,486	₩ 744,539

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2025 and 2024 (Unaudited)



25. 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 for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025	June 30, 2024
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(3,616)	(3,570)
Operating loss	(3,616)	(3,570)
Other income	166	-
Other expense	(379)	-
Finance income	102	47
Finance costs	-	-
Loss on discontinued operation, before tax	(3,727)	(3,523)
Income tax expense	-	-
Loss on discontinued operation, after tax	(3,727)	(3,523)
Exchange differences on translating foreign operations	(190)	(3,381)
Total comprehensive loss on discontinued operation	₩ (3,917)	₩ (6,904)

¹ Profits or losses from discontinued operations for the six-month period ended June 30, 2025 are presented after eliminating the effects of intra-group transactions.

Profit or loss from discontinued operations for each of the six-month periods ended June 30, 2025 and 2024 is entirely attributed to the Parent Company.

(b) Details of cash flows from discontinued operation for each of the six-month periods ended June 30, 2025 and 2024 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2025	June 30, 2024
Cash flows from operating activities	₩ (3,737)	₩ (3,344)
Cash flows from investing activities	102	47
Cash flows from financing activities	(529)	(470)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	(499)	922
	₩ (4,663)	₩ (2,845)

26. Events After the Reporting Period

The Group decided to pay interim dividend of ₩ 149,903 million (₩ 1,400 per share) as of August 22, 2025, which is scheduled to be paid on September 8, 2025 based on the resolution of the Board of Directors on August 7, 2025. The interim consolidated financial statements for the six-month period ended June 30, 2025 do not reflect such dividend payables.

The Group plans to acquire and retire 2,135,231 shares of its treasury stock (₩ 300,000 million) in 2025 through trading on the floor based on the resolution of the Board of Directors on August 7, 2025.

The Group plans to sell the KT&G Euljiro Tower based on the resolution of the Board of Directors on August 7, 2025.