



# **KT&G Corporation**

**Separate Interim Financial Statements**

**March 31, 2021**

**KT&G Corporation**  
**Index**  
**March 31, 2021 and 2020**

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	<b>Page(s)</b>
<b>Report on Review of Interim Financial Statements .....</b>	<b>1 ~ 2</b>
<b>Separate Interim Financial Statements</b>	
Separate Interim Statements of Financial Position .....	3 ~ 4
Separate Interim Statements of Comprehensive Income .....	5
Separate Interim Statements of Changes in Equity .....	6
Separate Interim Statements of Cash Flows.....	7
Notes to the Separate Interim Financial Statements.....	8 ~ 38

## **Report on Review of Interim Financial Statements**

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
KT&G Corporation

### ***Reviewed Financial Statements***

We have reviewed the accompanying separate interim financial statements of KT&G Corporation (the "Company"). These financial statements consist of the separate interim statement of financial position of the Company as at March 31, 2021, and the related separate interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2021, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to issue a report on these separate interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards 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 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 the accompanying separate interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

**Emphasis of Matter**

Without modifying our conclusion, we draw attention to Note 3 to the separate interim financial statements of the Company. Note 3 to the separate interim financial statements of the Company describes uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's productivity and operating environments.

**Other Matters**

The separate statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2020, presented herein for comparative purposes, were reviewed by another auditor whose report dated May 15, 2020. Based on their review, nothing has come to their attention that causes them to believe the accompanying financial statements do not present fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

The separate statement of financial position of the Company as at December 31, 2020, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by another auditor who expressed an unqualified opinion on those statements, not presented herein, on March 11, 2021, in accordance with Korean Standards on Auditing. The separate statement of financial position as at December 31, 2020, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2020.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea  
May 14, 2021

This report is effective as of May 14, 2021, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**KT&G Corporation**  
**Separate Interim Statements of Financial Position**  
**March 31, 2021 and December 31, 2020**



<i>(in Korean won)</i>	Notes	March 31, 2021	December 31, 2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	22	₩ 987,717,994,861	₩ 1,076,113,853,748
Current other financial assets	22,23	330,596,920,000	330,596,920,000
Current financial assets at fair value through profit or loss	22	862,684,762,949	914,423,857,131
Trade and other receivables	5,16,21,22	1,312,570,181,701	1,049,822,176,064
Current financial assets measured at fair value through other comprehensive income or loss	22	12,200,000,000	-
Derivative assets	22,23	878,814,824	12,710,170,259
Inventories	6	982,828,678,550	993,341,734,193
Refund assets and others		-	3,543,976
Accrued tobacco excise and other taxes		233,170,238,439	237,745,495,978
Advance payments		62,490,408,291	73,936,767,009
Prepaid expenses		16,514,485,619	17,536,265,109
Assets held for sale	21	2,000,000,000	2,000,000,000
<b>Total current assets</b>		<b>4,803,652,485,234</b>	<b>4,708,230,783,467</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	8,540,300,000	8,540,300,000
Long-term deposits in MSA Escrow Fund	22,23	1,009,093,452,923	909,793,848,086
Long-term financial assets measured at fair value through profit or loss	22,23	225,534,801,793	248,604,519,223
Long-term trade and other receivables	5,21,22	121,932,755,592	121,173,935,824
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23	210,422,795,648	214,394,237,251
Investments in associates and joint ventures	7,21,23	133,885,010,000	133,885,010,000
Investments in subsidiaries	8,21	1,157,470,750,910	1,154,257,150,910
Property, plant and equipment	9,21	1,140,775,759,428	1,139,629,710,585
Intangible assets	10	71,552,244,000	66,322,853,919
Investment properties	11,23	1,117,530,334,308	1,101,189,083,097
Right-of-use assets	12,21	27,217,074,228	29,047,382,278
Long-term prepaid expenses		8,041,226,085	8,594,020,771
Deferred income tax assets	20	23,914,085,892	35,880,808,023
<b>Total non-current assets</b>		<b>5,255,910,590,807</b>	<b>5,171,312,859,967</b>
<b>Total assets</b>		<b>₩ 10,059,563,076,041</b>	<b>₩ 9,879,543,643,434</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	₩ 823,879,490	₩ 816,523,010
Trade and other payables	21,22,23	1,301,632,271,203	811,176,851,324
Current lease liabilities	21,22	8,380,573,372	8,618,991,597
Derivative liabilities	22,23	4,048,056,332	57,106,354
Advance receipts	16	87,898,514,274	96,211,657,084
Current refund liabilities and provisions	15,23	13,490,738,867	15,303,322,149
Current income tax liabilities	20	197,843,312,712	211,379,530,801
Tobacco excise and other taxes payables		634,237,717,101	574,390,725,117
<b>Total current liabilities</b>		<b>2,248,355,063,351</b>	<b>1,717,954,707,436</b>
<b>Non-current liabilities</b>			
Long-term trade and other payables	21,22,23	40,444,284,736	41,530,363,086
Long-term lease liabilities	21,22	18,981,997,780	20,277,850,236
Long-term advance receipts		6,074,425,750	6,625,435,705
Net defined benefit liabilities	14,21	43,994,898,812	38,161,141,512
Long-term refund liabilities and provisions	15,23	747,062,691	1,051,955,528
<b>Total non-current liabilities</b>		<b>110,242,669,769</b>	<b>107,646,746,067</b>
<b>Total liabilities</b>		<b>2,358,597,733,120</b>	<b>1,825,601,453,503</b>

**KT&G Corporation**  
**Separate Interim Statements of Financial Position**  
**March 31, 2021 and December 31, 2020**

<i>(in Korean won)</i>	Notes	March 31, 2021	December 31, 2020
<b>Equity</b>			
Share capital		954,959,485,000	954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
Treasury shares		(531,618,093,579)	(531,618,093,579)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,508,506,658,133	6,037,903,146,578
Retained earnings		236,641,078,553	1,060,221,437,118
<b>Total equity</b>		<u>7,700,965,342,921</u>	<u>8,053,942,189,931</u>
<b>Total liabilities and equity</b>		<u>₩ 10,059,563,076,041</u>	<u>₩ 9,879,543,643,434</u>

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

**KT&G Corporation**  
**Separate Interim Statements of Comprehensive Income**  
**Three-Month Periods Ended March 31, 2021 and 2020**



(in Korean won)

	Notes	2021	2020
<b>Sales</b>	4,21 ₩	757,787,960,642 ₩	661,294,753,772
Manufacture of tobacco		639,626,667,042	551,883,109,262
Real estate	16	97,710,591,057	86,402,992,780
Exports of leaf tobacco and others		20,450,702,543	23,008,651,730
<b>Cost of sales</b>	21	(332,131,911,179)	(247,132,231,445)
Manufacture of tobacco		(271,480,032,403)	(196,272,579,465)
Real estate	16	(44,952,353,189)	(35,408,239,831)
Exports of leaf tobacco and others		(15,699,525,587)	(15,451,412,149)
<b>Gross profit</b>		425,656,049,463	414,162,522,327
Selling, general and administrative expense	17,21	(177,706,049,761)	(164,284,612,168)
<b>Operating profit</b>		247,949,999,702	249,877,910,159
Other income	18,21,22	70,104,191,205	85,008,809,122
Other expense	18,21,22	(14,497,478,043)	(36,911,431,237)
Finance income	19,21,22	20,240,374,384	62,034,391,876
Finance costs	19,21,22	(3,995,915,606)	(5,200,400,103)
<b>Profit before income tax</b>		319,801,171,642	354,809,279,817
Income tax expense	20	(82,824,921,799)	(94,050,886,143)
<b>Profit for the period</b>		₩ 236,976,249,843	₩ 260,758,393,674
<b>Other comprehensive income (loss) for the period after income tax</b>		₩ 5,630,533,547	₩ (45,358,027,761)
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities		(335,171,290)	(253,172,142)
Gain (loss) on valuation of fair value through other comprehensive income or loss		5,965,704,837	(45,104,855,619)
<b>Total comprehensive income for the period</b>		₩ 242,606,783,390	₩ 215,400,365,913
<b>Basic earnings per share</b>			
Basic and diluted		₩ 1,910	₩ 2,060

The above separate interim statements of comprehensive income should be read in conjunction with the accompanying notes.

**KT&G Corporation**  
**Separate Interim Statements of Changes in Equity**  
**Three-Month Periods Ended March 31, 2021 and 2020**



(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Total Equity
<b>Balance at January 1, 2020</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 5,723,185,728,271	₩ 888,251,673,785	₩ 7,780,083,652,411
<b>Total comprehensive income (loss) for the period</b>							
Profit for the period	-	-	-	-	-	260,758,393,674	260,758,393,674
<b>Other comprehensive income (loss) for the period:</b>							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(253,172,142)	(253,172,142)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(45,104,855,619)	-	(45,104,855,619)
	-	-	-	-	(45,104,855,619)	(253,172,142)	(45,358,027,761)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(45,104,855,619)	260,505,221,532	215,400,365,913
<b>Transactions with owners of the Parent Company:</b>							
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-
	-	-	-	-	331,300,012,585	(888,251,673,785)	(556,951,661,200)
<b>Balance at March 31, 2020</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 6,009,380,885,237	₩ 260,505,221,532	₩ 7,438,532,357,124
<b>Balance at January 1, 2021</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,037,903,146,578	₩ 1,060,221,437,118	₩ 8,053,942,189,931
<b>Total comprehensive income (loss) for the period</b>							
Profit for the period	-	-	-	-	-	236,976,249,843	236,976,249,843
<b>Other comprehensive income (loss) for the period:</b>							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(335,171,290)	(335,171,290)
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	5,965,704,837	-	5,965,704,837
	-	-	-	-	5,965,704,837	(335,171,290)	5,630,533,547
<b>Total comprehensive income for the period</b>	-	-	-	-	5,965,704,837	236,641,078,553	242,606,783,390
<b>Transactions with owners of the Parent Company:</b>							
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)
Transfer to other reserve	-	-	-	-	464,637,806,718	(464,637,806,718)	-
	-	-	-	-	464,637,806,718	(1,060,221,437,118)	(595,583,630,400)
<b>Balance at March 31, 2021</b>	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,508,506,658,133	₩ 236,641,078,553	₩ 7,700,965,342,921

The above separate interim statements of changes in equity should be read in conjunction with the accompanying notes.



**KT&G Corporation**  
**Separate Interim Statements of Cash Flows**  
**Three-Month Periods Ended March 31, 2021 and 2020**



<i>(in Korean won)</i>	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Cash generated from operations	₩ 24	(52,861,004,618)	₩ 75,998,423,544
Income taxes paid		33,669,132,761	149,160,834,294
		(86,530,137,379)	(73,162,410,750)
<b>Cash flows from investing activities</b>		(34,605,866,641)	(13,169,036,414)
Interest received		1,124,128,459	6,330,165,732
Dividends received		3,501,017,709	5,238,982,031
Decrease in other financial assets		110,000,000,000	116,340,300,000
Decrease in current financial assets measured at fair value through profit or loss		79,446,632,858	40,538,960,680
Decrease in long-term financial assets measured at fair value through profit or loss		600,000,000	31,088,060,098
Decrease in long-term deposits in MSA Escrow Fund		-	31,199,204,931
Disposal of property, plant and equipment		3,708,796,201	2,508,662,055
Disposal of investment properties		413,670,211	2,785,120,000
Disposal of assets held for sale		178,934,742	432,000,000
Collection of loans		3,390,123,363	2,795,572,814
Collection of guarantee deposits		12,861,185	-
Increase in other financial assets		(110,000,000,000)	(156,340,300,000)
Increase in long-term financial assets measured at fair value through profit or loss		(362,500,000)	(300,000,000)
Increase in long-term deposits in MSA Escrow Fund		(59,574,952,158)	(46,579,971,731)
Acquisition of property, plant and equipment		(47,874,088,004)	(20,904,414,550)
Acquisition of intangible assets		(6,937,422,577)	(12,954,588,467)
Acquisition of investment properties		(3,717,746,203)	(12,698,797,475)
Acquisition of assets held for sale		-	(18,197,470)
Acquisition of investments in subsidiaries		(3,213,600,000)	-
Increase in loans		(5,285,110,048)	(2,629,678,407)
Increase in guarantee deposits		(16,612,379)	(116,655)
<b>Cash flows from financing activities</b>		(2,453,534,337)	(1,952,739,196)
Interest paid		(349,834,613)	(116,521,075)
Repayment of lease liabilities		(2,103,699,724)	(1,836,218,121)
<b>Net increase (decrease) in cash and cash equivalents</b>		(89,920,405,596)	60,876,647,934
<b>Cash and cash equivalents at the beginning of the period</b>		1,076,113,853,748	656,775,412,332
Effect of exchange rate fluctuation on cash and cash equivalents		1,524,546,709	(1,491,893,714)
<b>Cash and cash equivalents at the end of the period</b>	₩	987,717,994,861	₩ 716,160,166,552

The above separate interim statements of cash flows should be read in conjunction with the accompanying notes.

## 1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2021, the Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 121 branches for the sale of tobacco throughout the country. Also, the Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. The Company was excluded from the application of the Act for the Management of Government-Invested Enterprises, and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Management Reform and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco. The shareholders approved a plan to separate the Company into two companies by setting up a subsidiary for its red ginseng business segment effective from January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

The Korean government sold 28,650,000 shares of the Company to the public during 1999, and the Company listed its shares on the Korea Exchange on October 8, 1999. On October 17, 2002, and October 31, 2001, the Company listed 35,816,658 and 45,400,000 Global Depositary Receipts (“GDRs”), respectively, (each GDR representing the right to receive one-half share of an ordinary share of the Company) on the Luxembourg Stock Exchange pursuant to the Korean government’s privatization program.

Also, on June 25, 2009, the listing market of the Parent Company’s GDR was changed from the BdL market to the Euro MTF in the Luxembourg Stock Exchange.

The Company’s major shareholders as of March 31, 2021, are as follows:

	Shares held(number of shares)	Percentage of ownership (%)
National Pension Service	12,493,934	9.10
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,554,165	2.59
Treasury shares	13,212,574	9.62
Others	98,521,339	71.76
	137,292,497	100.00

## **2. Significant Accounting Policies**

### **2.1 Basis of Preparation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Company's separate interim financial statements for the three-month period ended March 31, 2021, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These separate interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as of March 31, 2021.

#### **2.1.1 New and amended standards and interpretations adopted by the Company**

*(a) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform (Phase 2 amendments)*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship.

*(b) Amendment to Korean IFRS 1116 - Covid-19 - Related Rent Concessions beyond June 30, 2021*

The application of the practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. With early adoption of Korean IFRS 1116 *Lease*, the Company has changed the accounting policy for all the rent concessions that meet the requirements. The Company has applied the changed accounting policy, retrospectively, according to the transitional provisions. There was no cumulative impact of retrospective application and the Company did not restate comparatives for the 2020 reporting period. The Company recognized ₩ 2 million in profit or loss during the three-month period ended March 31, 2021, to reflect changes in lease payments that arise from a rent concession.

As of March 31, 2021, the amendment does not have a significant impact on the financial statements.

### **2.1.2 New and amended standards and interpretations not yet adopted by the Company**

The following new accounting standards and interpretations that have been published that are not mandatory for March 31, 2021 reporting periods and have not been early adopted by the Company.

#### *(a) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

#### *(b) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

#### *(c) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

#### *(d) Annual improvements to Korean IFRS 2018-2020*

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

*(e) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

The Company is in review for the impact of these amendments on the financial statements.

## **2.2 Significant Accounting Policies**

Significant accounting policies and method of computation used in the preparation of the Separate interim financial statements are consistent with those of the Separate financial statements for the year ended December 31, 2020, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.1 and the one described below.

### **2.2.1 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. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these separate interim financial statements are the same as those applied to the separate financial statements for the year ended December 31, 2020, except for the estimates used to determine income tax expense and the one described below.

The spread of Coronavirus disease 2019 ("COVID-19") has a material impact on domestic and global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company, and the impact is expected to be continued to the separate annual financial statements in 2021.

Significant accounting estimates and assumptions applied in the preparation of the separate interim financial statements can be adjusted depending on changes in the uncertainty from COVID-

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



19. Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot presently be determined.

**4. Operating Segment**

The Company obtains revenue by transferring goods and services over a period or at a point in time in the major business lines. The categories of major business lines are consistent with the revenue disclosure information per reporting segment in accordance with K-IFRS No. 1108.

*(in millions of Korean won)*

			<b>2021</b>	<b>2020</b>
Revenue recognized at a point in time:				
Manufacture and sales of tobacco	Korea	Wholesale, retail	₩ 432,074	₩ 421,289
		Direct sales	23	33
Sales of tobacco merchandise	Export	Wholesale, retail	141,332	116,893
		Wholesale, retail	25,634	12,861
	Korea	Direct sales	777	807
		Wholesale, retail	37,770	-
Manufacture and sale of semifinished tobacco products	Export	Direct sales	15,626	18,739
Manufacture and sale of tobacco raw materials	Export	Direct sales	1,478	1,344
Others	Korea	Direct sales	362	1,017
	Export		5,001	1,909
Subtotal			660,077	574,892
Revenue recognized over time:				
Sales and rental of real estate	Korea	Sales	78,087	67,944
	Korea	Rental	19,624	18,459
Subtotal			97,711	86,403
Total			₩ 757,788	₩ 661,295



**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**5. Trade and Other Receivables**

(a) Trade and other receivables as of March 31, 2021 and December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade receivables	₩ 1,134,407	₩ 20,010	₩ 974,705	₩ 18,253
Loans	15,805	63,937	15,042	61,465
Other receivables	129,184	12,766	31,112	13,213
Guarantee deposits	27,319	22,855	24,212	26,103
Accrued income	5,855	2,365	4,751	2,140
<b>Total</b>	<b>₩ 1,312,570</b>	<b>₩ 121,933</b>	<b>₩ 1,049,822</b>	<b>₩ 121,174</b>

(b) Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of March 31, 2021 and December 31, 2020, are as follows

<i>(in millions of Korean won)</i>	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Total carrying amount	₩ 1,383,525	₩ 197,362	₩ 1,118,926	₩ 196,018
Allowances:				
Trade receivables	(70,227)	(45,557)	(68,240)	(43,569)
Other receivables	(728)	(29,872)	(864)	(31,275)
Total allowances	(70,955)	(75,429)	(69,104)	(74,844)
<b>Net trade and other receivables</b>	<b>₩ 1,312,570</b>	<b>₩ 121,933</b>	<b>₩ 1,049,822</b>	<b>₩ 121,174</b>

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 143,948	₩ 166,511
Impairment loss (reversal)	2,436	(3,862)
<b>Ending balance</b>	<b>₩ 146,384</b>	<b>₩ 162,649</b>

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

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**6. Inventories**

(a) Inventories as of March 31, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)	March 31, 2021			December 31, 2020		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 11,169	₩ (3,347)	₩ 7,822	₩ 19,904	₩ (5,209)	₩ 14,695
Finished goods	136,411	(6,748)	129,663	114,936	(5,836)	109,100
Work in progress	14,588	-	14,588	13,252	-	13,252
Raw materials	716,330	(56)	716,274	736,865	(264)	736,601
Supplies	41,298	-	41,298	40,038	-	40,038
By-products	7,001	-	7,001	7,142	-	7,142
Buildings under construction	23,684	-	23,684	13,568	-	13,568
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate	6,870	-	6,870	7,420	-	7,420
Goods in transit	34,139	-	34,139	50,036	-	50,036
Total	₩ 992,980	₩ (10,151)	₩ 982,829	₩ 1,004,651	₩ (11,309)	₩ 993,342

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)	2021	2020
Cost of sales:		
Loss on valuation of inventories (reversal)	₩ (1,158)	₩ 1,572
Loss on obsolescence of inventories	1,972	243
Total	₩ 814	₩ 1,815



## 7. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of March 31, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

(in millions of Korean won)				March 31, 2021			December 31, 2020		
		Location	Principal Operation	Percentage of ownership (%)		Carrying Amount	Percentage of ownership (%)		Carrying Amount
Associates	Lite Pharm Tech, Inc	Korea	Manufacturing medical supplies	16.30	₩	1,830	16.75	₩	1,830
	KORAMCO Ocheon Project Financial Investment Co., Ltd. <sup>1</sup>	Korea	Investing, Developing and Renting real estate	18.95		5,685	18.95		5,685
	KORAMCO Banpo Project Financial Investment Co., Ltd. <sup>1</sup>	Korea	Investing, Developing and Renting real estate	18.95		5,306	18.95		5,306
	KORAMCO Dongjak Project Financial Investment Co., Ltd. <sup>1</sup>	Korea	Investing, Developing and Renting real estate	19.47		1,850	19.47		1,850
	KORAMCO Amsa Project Financial Investment Co., Ltd. <sup>1</sup>	Korea	Investing, Developing and Renting real estate	17.84		1,159	17.84		1,159
	Others					55			55
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>2</sup>	Korea	Renting real estate	51.35		18,500	51.35		18,500
	Starfield Suwon Inc.	Korea	Developing and Renting real estate	50.00		99,500	50.00		99,500
					₩	133,885		₩	133,885

<sup>1</sup>It is classified as an investment in associates even though the Company's holdings in the invested company is less than 20%. Since it has the right to participate in the invested company's board of directors meeting according to the shareholders' agreement, the Company has judged that it has significant influence over the invested company.

<sup>2</sup>It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties.

According to the liquidation procedure of KB Gimpo Logistics CR REIT Co., Ltd., and KORAMCO Private REIT 50 Fund during the year ended December 31, 2020, the Company has been allocated a portion of the remaining assets and has a recognized a ₩ 2,208 million gain on disposal of investment in joint ventures.

The Company participated in Starfield Suwon Inc.'s rights offering to existing shareholders and acquired 1,750,000 equity securities for ₩ 87,500 million during the year ended December 31, 2020.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



The Company has acquired equity securities of the following companies during the year ended December 31, 2020 : KORAMCO Ocheon Project Financing Vehicle Co., Ltd.(284,250 shares for ₩ 5,685 million), KORAMCO Banpo Project Financing Vehicle Co., Ltd.(265,300 shares for ₩ 5,306 million), KORAMCO Dongjak Project Financing Vehicle Co., Ltd.(369,900 shares for ₩ 1,850 million) and KORAMCO Amsa Project Financing Vehicle Co., Ltd.(231,900 shares for ₩ 1,159 million).

## 8. Investments in Subsidiaries

(a) Details of investments in subsidiaries as of March 31, 2021 and December 31, 2020, are as follows:

(in millions of Korean won))

Name of entity	Location	Principal operation	March 31, 2021		December 31, 2020	
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A Industry Co., Ltd.	Korea	Manufacturing reconstituted Tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	Manufacturing and selling tobaccos	99.99	-	99.99	-
Korea Tabacos do Brasil Ltda.	Brazil	Assistance with purchasing tobacco leaf	99.99	2,891	99.99	2,891
KT&G Pars	Iran	Manufacturing and selling tobacco	99.99	-	99.99	-
KT&G Rus L.L.C.	Russia	Manufacturing and selling tobacco	100.00	68,947	100.00	68,947
KT&G USA Corporation	USA	Selling tobaccos	100.00	4,913	100.00	4,913
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. <sup>1</sup>	Singapore	Holding Company	100.00	148,834	100.00	148,834
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,240	99.99	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00	12,040	100.00	12,040
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon SangSang P.F.V.	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	3,214	-	-
				₩ 1,157,471		₩ 1,154,257

<sup>1</sup>The percentage of ownership does not include convertible preference shares, with 88.60% including preferred shares as of March 31, 2021.

For the year ended December 31, 2020, the Company has acquired 4,000,000 shares (₩ 20,000 million) of its subsidiary, SangSang Stay, Inc. through a capital increase with consideration.

The Company has acquired 8,000,000 shares (₩ 3,214 million) of KT&G Taiwan Corporation during the three-month period ended March 31, 2021, through establishment of capital investment.

(b) Impairment

The Company is conducting a review of the signs of impairment on its investments in subsidiaries and, if any, situations that impairment seems necessary occurs, the Company estimates the recoverable amount and performs an impairment test.

The Company has recognized impairment losses for its investment in subsidiaries where signs of impairment have been identified since the book value of net assets of the subsidiaries were lower than the book value of the investments in subsidiaries, due to the continuous accumulation of operating losses, etc. Details of such impairment losses recognized for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>	<b>Method for evaluating recoverable amount</b>
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩ -	₩ 1,414	Fair value

The value of use and fair value of investments in subsidiaries were assessed as recoverable amount when carrying out the impairment test, and the estimate of recoverable amount reflects management's assessment of future trends in the industry and is based on internal and external historical data.

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

## 9. Property, Plant and Equipment

Changes in property, plant and equipment for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 1,139,630	₩ 1,116,325
Acquisition	44,732	18,719
Disposal/obsolescence/impairment loss	(28)	(756)
Depreciation	(23,986)	(22,254)
Transfer	(19,572)	(32,131)
Ending balance	₩ 1,140,776	₩ 1,079,903

## 10. Intangible Assets

Changes in intangible assets for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 66,323	₩ 58,861
Acquisition	6,937	12,955
Disposal/obsolescence/impairment loss	(35)	(40)
Depreciation	(1,673)	(1,492)
Transfers	-	(14,041)
Ending balance	₩ 71,552	₩ 56,243

## 11. Investment Property

Changes in investment property for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 1,101,189	₩ 999,105
Acquisition	3,718	12,699
Disposal/obsolescence/impairment loss	(408)	(2,929)
Depreciation	(6,541)	(5,517)
Transfers	19,572	44,843
Ending balance	₩ 1,117,530	₩ 1,048,201

## 12. Right-of-use Assets

Changes in right-of-use assets for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 29,047	₩ 18,545
Acquisition	960	1,040
Disposal	(29)	(118)
Depreciation	(2,761)	(2,149)
Ending balance	₩ 27,217	₩ 17,318

### 13. Borrowings

Details of short-term borrowings as of March 31, 2021 and December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Nonghyup Bank	₩ 651	₩ 633
Hana card	173	184
Total	<u>₩ 824</u>	<u>₩ 817</u>

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables, and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.

### 14. Employee Benefits

(a) Profit or loss recognized related to employee benefits for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Defined benefit plans:		
Current service cost	₩ 8,557	₩ 7,724
Net interest on net defined benefit liabilities	181	101
Subtotal	<u>8,738</u>	<u>7,825</u>
Defined contribution plan:		
Contributions recognized as expense	1,841	1,836
Other long-term employee benefits:		
Current service cost, etc.	717	763
Termination benefits:		
Voluntary retirements, etc.	1,253	2,295
Total	<u>₩ 12,549</u>	<u>₩ 12,719</u>

(b) Net defined benefit liabilities as of March 31, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Present value of defined benefit obligation	₩ 401,702	₩ 396,703
Fair value of plan assets	(357,707)	(358,542)
Total	<u>₩ 43,995</u>	<u>₩ 38,161</u>

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**15. Refund Liabilities and Provisions**

(a) Refund liabilities and provisions as of March 31, 2021 and December 31, 2020, are as follows:

*(in millions of Korean won)*

	March 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 5,773	₩ -	₩ 4,464	₩ -
Refund liabilities	2,200	285	1,979	305
Provision for site restoration	5,126	125	8,682	125
Provision for financial guarantee	198	337	-	622
Provision for greenhouse gases	194	-	178	-
Total	₩ 13,491	₩ 747	₩ 15,303	₩ 1,052

(b) Changes in refund liabilities and provisions for the three-month period ended March 31, 2021, are as follows:

*(in millions of Korean won)*

	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 2,041	₩ (732)	₩ 5,773
Refund liabilities	2,284	201	-	2,485
Provision for site restoration	8,807	-	(3,556)	5,251
Provision for financial guarantee	622	-	(87)	535
Provision for greenhouse gases	178	16	-	194
Total	₩ 16,355	₩ 2,258	₩ (4,375)	₩ 14,238

Changes in refund liabilities and provisions for the three-month period ended March 31, 2020, are as follows:

*(in millions of Korean won)*

	2020			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩ 630	₩ (1,286)	₩ 3,038
Refund liabilities	5,023	9	(61)	4,971
Provision for site restoration	6,695	-	-	6,695
Provision for financial guarantee	492	-	(58)	434
Provision for greenhouse gases	-	-	-	-
Total	₩ 15,904	₩ 639	₩ (1,405)	₩ 15,138



**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**16. Real Estate Sales Contract**

(a) Ongoing real estate sales contracts for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2021				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>1</sup>
Suwon hwaseo park prugio (Apartment)	June-2018	August-2021	81.22	₩ 1,188,429	₩ 1,186,566	₩ 963,758	₩ 51,773	₩ 403,749
Suwon hwaseo park prugio (Efficiency apartment)	October-2018	August-2021	80.49	112,056	106,493	84,475	4,366	51,636
Suwon hwaseo prugio briciel	June-2020	September-2023	11.21	791,434	751,016	84,173	21,948	37,778
Total				₩ 2,091,919	₩ 2,044,075	₩ 1,132,406	₩ 78,087	₩ 493,163

<sup>1</sup> Excludes cumulative costs of ₩ 32,512 million for common infrastructure.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2020				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>1</sup>	Cost (cumulative)
Suwon hwaseo park prugio (Apartment)	June-2018	August-2021	41.83	₩ 1,188,870	₩ 1,187,006	₩ 496,481	₩ 62,180	₩ 204,288
Suwon hwaseo park prugio (Efficiency apartment)	October-2018	August-2021	41.42	112,060	106,762	44,218	5,535	26,640
Total				₩ 1,300,930	₩ 1,293,768	₩ 540,699	₩ 67,715	₩ 230,928

<sup>1</sup> Excludes sales revenue for Dae-gu central Xi of ₩ 229 million for the three-month period ended March 31, 2020 (construction has been completed as of March 31, 2020, but resale is underway due to cancellation of the sales contract).

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



(b) Receivables and payables for on-going sales contracts as of March 31, 2021 and December 31, 2020, are as follows:

*(in millions of Korean won)*

Construction project	March 31, 2021			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 963,758	₩ 726,891	₩ 236,867	₩ -
Suwon hwaseo park prugio (Efficiency apartment)	84,475	55,096	29,379	-
Suwon hwaseo prugio brieiel	84,173	152,327	-	68,154
Total	₩ 1,132,406	₩ 934,314	₩ 266,246	₩ 68,154

*(in millions of Korean won)*

Construction project	December 31, 2020			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 911,985	₩ 721,871	₩ 190,114	₩ -
Suwon hwaseo park prugio (Efficiency apartment)	80,109	43,926	36,183	-
Suwon hwaseo prugio brieiel	62,225	151,136	-	88,911
Total	₩ 1,054,319	₩ 916,933	₩ 226,297	₩ 88,911

(c) No material changes in estimated total contract revenues and total contract costs have occurred during the three-month period ended March 31, 2021. Estimated total contract revenue and total contract cost of the ongoing sales contracts are based on the circumstances that have occurred until March 31, 2021, and subject to change in the future.



## 17. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Salaries	₩ 70,049	₩ 67,776
Retirement and termination benefits	8,266	8,733
Employee welfare	7,591	8,028
Travel expenses	614	1,279
Communication cost	675	662
Utilities	3,269	3,045
Taxes and dues	1,296	1,193
Supplies	607	820
Rent	1,404	1,571
Depreciation	9,068	9,079
Amortization	1,670	1,491
Repairs and maintenance	902	784
Vehicles	814	880
Insurance	775	437
Commissions	30,788	30,642
Freight and custody	2,751	2,199
Conferences	338	590
Advertising	21,705	21,744
Education and training	863	956
Prizes and rewards	318	497
Research and development	11,307	4,602
Impairment loss (reversal of impairment loss) on trade receivables	2,636	-2,723
<b>Total</b>	<b>₩ 177,706</b>	<b>₩ 164,285</b>

**18. Other Income and Expense**

(a) Other income for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Gain on foreign currency transaction	₩ 6,057	₩ 50,493
Gain on foreign currency translation	61,864	27,003
Gain on valuation of derivatives	5	-
Reversal of impairment loss on other receivables	479	1,788
Gain on disposal of property, plant and equipment	53	609
Gain on disposal of investment property	5	-
Gain on lease contract adjustments	3	12
Miscellaneous income	1,638	5,104
<b>Total</b>	<b>₩ 70,104</b>	<b>₩ 85,009</b>

(b) Other expense for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Loss on foreign currency transaction	₩ 1,234	₩ 4,337
Loss on foreign currency translation	425	12,003
Loss on valuation of derivatives	11,841	16,829
Loss on impairment of other receivables	279	649
Loss on disposal of property, plant and equipment	20	423
Loss on disposal of intangible assets	-	40
Loss on impairment of intangible assets	35	-
Loss on disposal of assets held for sale	-	1
Loss on disposal of investment properties	-	144
Loss on impairment of investments in subsidiaries	-	1,414
Donations	547	1,048
Miscellaneous loss	116	23
<b>Total</b>	<b>₩ 14,497</b>	<b>₩ 36,911</b>

## 19. Finance Income and Cost

Finance income and cost for the three-month periods ended March 31, 2021 and 2020, are as follows:

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Finance income:				
Interest income <sup>1</sup>	₩	3,440	₩	6,111
Dividend income		8,523		11,549
Gain on valuation of fair value through profit or loss		8,277		15,071
Gain on disposal of long-term deposits in MSA Escrow Fund		-		29,303
Total finance income	₩	20,240	₩	62,034
Finance cost:				
Interest expense	₩	594	₩	449
Loss on valuation of fair value through profit or loss		3,402		4,751
Total finance cost	₩	3,996	₩	5,200
Net finance income	₩	16,244	₩	56,834

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

## 20. Income Tax Expense and Deferred Tax Asset

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 the three-month periods ended March 31, 2021 and 2020, are 25.90% and 26.51%, respectively.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**21. Related Parties**

(a) Details of related parties of the Company as of March 31, 2021 and December 31, 2020, are as follows:

(Unit : %)

	Name of entity	Notes	Location	March 31, 2021			December 31, 2020		
				Parent	Subsidiary	Total	Parent	Subsidiary	Total
Subsidiaries	Korea Ginseng Corporation		Korea	100.00	-	100.00	100.00	-	100.00
	Yungjin Pharm. Co., Ltd.		Korea	52.45	-	52.45	52.45	-	52.45
	Tae-a Industry Co., Ltd.		Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.		Turkey	99.99	-	99.99	99.99	-	99.99
	Korea Tabacos do Brasil Ltda.		Brazil	99.99	-	99.99	99.99	-	99.99
	KT&G Pars		Iran	99.99	-	99.99	99.99	-	99.99
	KT&G Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
	KT&G USA Corporation		USA	100.00	-	100.00	100.00	-	100.00
	Cosmococ Co., Ltd.		Korea	98.56	-	98.56	98.56	-	98.56
	Renzoluc Pte., Ltd.	1	Singapore	100.00	-	100.00	100.00	-	100.00
	PT KT&G Indonesia		Indonesia	99.99	-	99.99	99.99	-	99.99
	SangSang Stay, Inc.		Korea	100.00	-	100.00	100.00	-	100.00
	KT&G Global Rus L.L.C.		Russia	100.00	-	100.00	100.00	-	100.00
	Gwacheon Sangsang PFV		Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation	2	Taiwan	100.00	-	100.00	-	-	-
	K&I HK Co., Ltd.		HongKong	-	98.56	98.56	-	98.56	98.56
	K&I China Co., Ltd.		China	-	98.56	98.56	-	98.56	98.56
	KGC Yebon Corporation		Korea	-	100.00	100.00	-	100.00	100.00
	KGC Life & Gin Co., Ltd.		Korea	-	100.00	100.00	-	100.00	100.00
	Jilin Hanzheng Ginseng Co., Ltd.		China	-	100.00	100.00	-	100.00	100.00
	Cheong Kwan Jang Taiwan Corporation		Taiwan	-	100.00	100.00	-	100.00	100.00
	Korean Red Ginseng Corp., Inc.		USA	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng (China) Corp.		China	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng Corporation Japan		Japan	-	100.00	100.00	-	100.00	100.00
	PT Trisakti Purwosari Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
	PT Nusantara Indah Makmur		Indonesia	-	99.99	99.99	-	99.99	99.99
Associates	Lite Pharm Tech, Inc.	3	Korea	16.30	-	16.75	16.75	-	16.75
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	3	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.	3	Korea	18.95	-	18.95	18.95	-	18.95
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	3	Korea	19.47	-	19.47	19.47	-	19.47
	KORAMCO Amsa Project Financing Vehicle Co., Ltd.	3	Korea	17.84	-	17.84	17.84	-	17.84
	Others		Korea						
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	4	Germany	51.35	-	51.35	51.35	-	51.35
	Starfield Suwon, Inc		Korea	50.00	-	50.00	50.00	-	50.00

<sup>1</sup> The percentage of ownership does not include convertible preference shares, with 88.60% including preferred shares as of March 31, 2021.

<sup>2</sup> During the three-month period ended March 31, 2021, the Company KT&G Taiwan was included as a subsidiary through establishment of capital investment.

<sup>3</sup> It is classified as an investment in associates although the Company's holdings in the invested company is less than 20%. Since it has the right to participate in the invested company's Board of Directors meeting according to the shareholder's agreement, the Company determined that it has significant influence over the invested company.

<sup>4</sup> It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



(b) The Company carries out transactions with related parties such as sales of goods and services, the details of transactions with related parties for the three-month periods ended March 31, 2021 and 2020, are as follows:

① Sales and other income

*(in millions of Korean won)*

Type	Name of entity	2021	2020
Subsidiaries	Korea Ginseng Corporation	₩ 2,165	₩ 2,012
	Yungjin Pharm. Co., Ltd.	82	55
	Tae-A Industry Co., Ltd.	123	95
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. <sup>1</sup>	1,703	3,893
	Korea Tabacos do Brasil Ltda.	1	1
	KT&G Rus L.L.C. <sup>1</sup>	9,935	9,912
	KT&G USA Corporation	40,742	39,308
	Cosmococ Co., Ltd.	28	8
	PT KT&G Indonesia <sup>1</sup>	259	259
	SangSang Stay, Inc.	1,200	1,329
	KT&G Global Rus L.L.C.	7	-
	KGC Yebon Corporation	4	4
	KGC Life & Gin Co., Ltd.	20	20
	PT Trisakti Purwosari Makmur <sup>1</sup>	4,533	2,779
	Others	18	-
Associates		₩ 60,820	₩ 59,675

<sup>1</sup> These figures exclude impairment loss (reversal of impairment loss) for related parties which are ₩ 708 million for the three-month period ended March 31, 2021 (2020: ₩ 1,057 million).

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	2021	2020
Subsidiaries	Korea Ginseng Corporation	₩ 446	₩ 482
	Yungjin Pharm. Co., Ltd.	309	-
	Tae-A Industry Co., Ltd.	6,219	3,831
	Cosmococ Co., Ltd.	9	245
	SangSang Stay, Inc.	34	5
	KGC Yebon Corporation	44	36
	KGC Life & Gin Co., Ltd.	2	-
Associates	Others	270	-
		₩ 7,333	₩ 4,599

(c) Account balances of receivables and payables with related parties as of March 31, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2021		December 31, 2020	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 147	₩ 1,930	₩ 543	₩ 1,894
	Yungjin Pharm. Co., Ltd.	48	58	81	58
	Tae-a Industry Co., Ltd.	-	6,999	-	4,408
	KT&G Tutun Mamulleri				
	Sanayi ve Ticaret A.S. <sup>1</sup>	46,365	-	43,349	-
	Korea Tabacos do Brasil Ltda. <sup>2</sup>	114	-	113	-
	KT&G Pars <sup>1,2</sup>	44,525	-	44,525	-
	KT&G Rus L.L.C. <sup>1</sup>	28,827	-	29,205	-
	KT&G USA Corporation	74,435	283	80,993	272
	Cosmococ Co., Ltd.	4	-	5	-
	SangSang Stay, Inc.	-	1	-	-
	PT KT&G Indonesia <sup>1,2</sup>	29,716	-	28,353	-
	KT&G Global Rus L.L.C.	35	-	27	-
	KGC Yebon Corporation	-	9,395	-	9,596
	KGC Life & Gin Co., Ltd.	-	135	-	135
	PT Trisakti Purwosari Makmur <sup>1</sup>	38,820	-	36,444	-
	Others	18	33	-	32
Associates		₩ 263,054	₩ 18,834	₩ 263,638	₩ 16,395

<sup>1</sup> These figures are gross amounts before the deduction of allowance for doubtful accounts. Allowance for doubtful accounts as of March 31, 2021 and December 31, 2020, were ₩ 77,777 million and ₩ 77,069 million respectively.

<sup>2</sup> Amount includes loans to related parties.



**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



(d) Transactions of purchase and sales of property, plant and equipment(including assets held for sale) and right-of use assets with related parties for the three-month period ended March 31, 2020, are as follows, and there are no transactions for the three-month period ended March 31, 2021:

(in millions of Korean won)

Type	Name of entity	2020	
		Purchase of right-of-use assets	Sale of property, plant and equipment
Subsidiaries	Tae-A Industry Co., Ltd.	₩ -	₩ 432
	KGC Yebon Corporation	229	-
	PT Trisakti Purwosari Makmur <sup>1</sup>	-	102
		₩ 229	₩ 534

<sup>1</sup> Excludes property, plant and equipment to be sold to PT Trisakti Purwosari Makmur amount of ₩ 1,347 million recognized as assets held for sale on the statement of financial position.

(e) Details of fund transactions with related parties for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	2021		2020	
		Equity investment	Repayment of lease liabilities	Repayment of lease liabilities	
Subsidiaries	KT&G Taiwan Corporation	₩ 3,214	₩ -	₩ -	
	KGC Yebon Corporation	-	201	17	
		₩ 3,214	₩ 201	₩ 17	

(f) As of March 31, 2021, KT&G USA Corporation is being provided with a payment guarantee from the Federal Insurance Company up to USD 35,000 thousand in relation to import clearance. The Company has a recourse responsibility up to a limit of USD 125,000 thousand, which includes the amount of payment guarantee executed, to the Federal Insurance Company and others (see Note 23 (c)).

(g) During the year ended December 31, 2020, the Company has renewed a contract which extends the maturity of its loan to PT KT&G Indonesia of USD 22,975 thousand.

(h) Key management personnel compensation for the three-month periods ended March 31, 2021 and 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	2021	2020
Short-term and long-term employee benefits	₩ 6,163	₩ 5,106
Retirement benefits	602	528
Total	₩ 6,765	₩ 5,634

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

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

#### **① Currency risk**

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

#### **② Price risk**

The Company is exposed to other price fluctuation risks in relation to its listed equity instruments in fair value through other comprehensive income or loss such that the fair value of the financial instruments or the future cash flows will change due to factors such as changes in market price. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the listed equity instruments due to changes in market prices. Management of important investments within the portfolio is performed individually and acquisition and disposal are approved by the management of the Company.



③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the trade payables and other payables and lease liabilities. The management of the Company regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Company as of March 31, 2021, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

(b) Credit risk

The Company is exposed to credit risk that will cause financial losses to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Company deals with customers with certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of the financial assets. The Company evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, and determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Company periodically reassesses the credit limit, readjusts the collateral level by reassessing the client's creditworthiness, reports the delayed recovery status and recovery measures on a quarterly basis for financial assets that are delayed and takes appropriate measures according to the reason for the delay.

As of March 31, 2021 and December 31, 2020, the carrying amount of a financial asset indicates the maximum exposure to credit risk.

(c) Liquidity risk

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

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



(d) The carrying amounts of each category of financial instruments as of March 31, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Financial assets:		
Fair value through profit or loss <sup>1</sup>	₩ 1,631,895	₩ 2,013,316
Fair value through other comprehensive income or loss	222,623	214,394
Derivative assets	879	12,710
Financial assets measured at amortized cost		
Cash and cash equivalents <sup>1</sup>	444,043	225,827
Other financial assets	339,137	339,137
Trade and other receivables	1,434,503	1,170,996
Long-term deposits in MSA Escrow Fund	1,009,093	909,794
Subtotal	3,226,776	2,645,754
Total financial assets	₩ 5,082,173	₩ 4,886,174
Financial liabilities:		
Derivative liabilities	₩ 4,048	₩ 57
Financial liabilities measured at amortized cost		
Short-term borrowings	824	817
Trade and other payables	1,074,327	549,848
Lease liabilities	27,363	28,897
Subtotal	1,102,514	579,562
Total financial assets	₩ 1,106,562	₩ 579,619

<sup>1</sup> As of March 31, 2021, money market trust worth ₩ 543,675 million (December 31, 2020: ₩ 850,287 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

	<b>Inputs used</b>
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

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



The fair value measurements classified by fair value hierarchy as of March 31, 2021 and December 31, 2020, are as follows:

(in millions of Korean won)

	Carrying amount	March 31, 2021		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 1,631,895	₩ -	₩ 1,402,511	₩ 229,384
Fair value through other comprehensive income or loss	222,623	175,759	-	46,864
Derivative assets	879	-	879	-
Total financial assets	₩ 1,855,397	₩ 175,759	₩ 1,403,390	₩ 276,248
Derivative liabilities	₩ 4,048	₩ -	₩ 4,048	₩ -

<sup>1</sup> As of March 31, 2021, money market trust worth ₩ 543,675 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(in millions of Korean won)

	Carrying amount	December 31, 2020		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 2,013,316	₩ -	₩ 1,782,928	₩ 230,388
Fair value through other comprehensive income or loss	214,394	167,518	-	46,876
Derivative assets	12,710	-	12,710	-
Total financial assets	₩ 2,240,420	₩ 167,518	₩ 1,795,638	₩ 277,264
Derivative liabilities	₩ 57	₩ -	₩ 57	₩ -

<sup>1</sup> As of December 31, 2020, money market trust worth ₩ 850,287 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There was no movement between levels of the fair value hierarchy for the three-month periods ended March 31, 2021 and 2020.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



As of March 31, 2021 and December 31, 2020, 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 discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 277,264	₩ 297,453
Acquisition	362	300
Disposal	(600)	(31,088)
Changes in fair value	(778)	1,664
Ending balance	₩ 276,248	₩ 268,329

(f) Net gains or losses by category of financial instruments for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021					
	Fair value through profit or loss	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	₩ -	₩ -	₩ -	₩ 3,440	₩ -	₩ 3,440
Dividend income	2,178	6,327	-	-	-	8,505
Gain or loss on valuation	4,875	-	(11,836)	-	-	(6,961)
Gain on disposal	-	-	-	-	3	3
Interest expense	-	-	-	-	(594)	(594)
Reversal of impairment loss	-	-	-	(2,436)	-	(2,436)
Total	₩ 7,053	₩ 6,327	₩ (11,836)	₩ 1,004	₩ (591)	₩ 1,957
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ 8,229	₩ -	₩ -	₩ -	₩ 8,229

(in millions of Korean won)

	2020					
	Fair value through profit or loss	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	₩ -	₩ -	₩ -	₩ 6,111	₩ -	₩ 6,111
Dividend income	3,630	7,919	-	-	-	11,549
Gain or loss on valuation	10,320	-	(16,829)	-	-	(6,509)
Gain on disposal	-	-	-	29,303	12	29,315
Interest expense	-	-	-	-	(449)	(449)
Reversal of impairment loss	-	-	-	3,862	-	3,862
Total	₩ 13,950	₩ 7,919	₩ (16,829)	₩ 39,276	₩ (437)	₩ 43,879
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (62,213)	₩ -	₩ -	₩ -	₩ (62,213)

## 23. Contingent Liabilities and Commitments

### (a) Litigation cases

As of March 31, 2021, the Company has 5 cases of pending litigations under progress where the Company is the defendant and the litigation value are ₩ 57,548 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of March 31, 2021, on the separate financial statements of the Company.

### (b) Commitments with financial institutions

Major commitments of the Company with financial institutions as of March 31, 2021, are as follows:

*(in thousands of US dollars)*

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank and one other	USD	110,000
Derivatives trading <sup>1</sup>	Hana Bank and five others	USD	374,700

<sup>1</sup> Derivatives are composed of foreign exchange forward contracts and are held for trading as of March 31, 2021.

As of March 31, 2021, the Company has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 86,590 thousand) related to the overseas export of manufactured cigarettes etc.

### (c) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Company as of March 31, 2021, are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,433,352	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	2,877	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	25,005	Escrow deposit guarantee
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves, etc.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



As of March 31, 2020, the Company is being provided with a payment guarantee from the Federal Insurance Company up to a limit of USD 35,000 thousand in relation to import clearance for KT&G USA Corporation. The Company has a recourse responsibility up to a limit of USD 125,000 thousand, which includes the amount of payment guarantee executed, to the Federal Insurance Company and others.

Payment guarantees provided by the Company for other parties as of March 31, 2021, are as follows:

*(in millions of Korean won)*

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon hwaseo park prugio (Apartment)	Shinhan Bank and two others	₩ 139,400	₩ 89,995	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of Suwon hwaseo park prugio (Efficiency apartment)		9,480	8,875	
Buyer of Suwon hwaseo prugio briel		76,720	12,619	
Total		₩ 225,600	₩ 111,489	

The Company provides payment guarantees to financial institutions in accordance with the consumer financial agreement related to retail trade receivables and receives related bonds from financial institutions and recognizes them as short-term borrowings (Note 13).

Assets pledged as collateral as of March 31, 2021, are as follows:

<i>(in millions of Korean won)</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩ 486,518	₩ 25,744	₩ 28,925	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security and leasehold rights for leasehold deposits
	8,540	-	8,540	Korea Land & Housing Corporation	Establishment of a pledge to guarantee real estate development
Other financial assets	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩ 495,655	₩ 26,341	₩ 38,062		



**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



Financial assets with restricted use as of March 31, 2021 and December 31, 2020, are summarized as follows:

*(in millions of Korean won)*

		March 31, 2021	December 31, 2020
	Establishment of a pledge to guarantee real estate development	₩ 8,540	₩ 8,540
Other financial assets	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Total	₩ 109,137	₩ 109,137

(d) Others

Each year, the Company deposits a certain proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the US state government. In accordance with the Escrow Statute, in the event that tobacco consumers suffer adverse damages as a result of illegal activities by the Company, which in turn lead to the medical finances of US state governments being used, the deposit in the MSA Escrow Fund may be incorporated into the state government's medical finances. The unused portion of the fund will be refunded to the Company after 25 years from the date of each deposit. The Company has recognized ₩1,009,093 million as of March 31, 2021 (December 31, 2020: ₩909,794 million), as long-term deposits in MSA Escrow Fund and consist of T-Notes, T-bills and demand deposits.

As of March 17, 2011, the Company signed a memorandum of understanding with the National Pension Service on a global investment partnership that calls for the joint investment of less than ₩ 800,000 million in total into overseas assets.

The Company is currently operating Starfield Suwon after establishing the joint venture under 50:50 ratio with Shinsegae Property. The disposal of such share is limited for five years from the approval for use of the multi-shopping mall. In the event that the Company or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

As of March 31, 2021, there is a capital call agreement for overseas real estate funds invested by the Company. However, the Company expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

In relation to the IGIS global professional investment type private fund real estate investment trust No. 378-2, there is an agreement in which the Company has an obligation to acquire additional equities that may be generated at the time of construction completion of the real estate by the investment trust.

As of March 31, 2021, the Company is being provided with a commitment from Daewoo Engineering & Construction Co., Ltd. to complete the construction of public housing, efficiency apartments, and sales facilities in the Daeyupyeong District Unit Planning Zone located in 111, Jeongja-dong, Jangan-gu, Suwon-si. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee.

**KT&G Corporation**  
**Notes to the Separate Interim Financial Statements**  
**March 31, 2021 and 2020, and December 31, 2020**



**24. Cash Flows**

Details of cash generated from operations for the three-month periods ended March 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Profit for the period	₩ 236,976	₩ 260,758
Adjustments:		
Employee welfare	882	537
Retirement benefits	8,738	7,825
Loss on valuation or obsolescence of inventories	814	1,815
Depreciation	33,288	29,920
Amortization	1,673	1,492
Impairment loss (reversal of impairment loss) on trade and other receivables	2,436	(3,862)
Loss on foreign currency translation	425	12,003
Loss on valuation of derivatives	11,841	16,829
Loss on disposal of property, plant and equipment	20	423
Loss on disposal of intangible assets	-	40
Loss on impairment of intangible assets	35	-
Loss on disposal of investment properties	-	144
Loss on disposal of assets held for sale	-	1
Loss on impairment of investments in subsidiaries	-	1,414
Other expenses, etc.	16	9
Finance cost	3,996	5,200
Income tax expense	82,825	94,051
Gain on foreign currency translation	(61,864)	(27,003)
Gain on valuation of derivatives	(5)	-
Gain on disposal of property, plant and equipment	(53)	(609)
Gain on disposal of investment property	(5)	-
Other income, etc.	1,286	(46,777)
Finance income	(20,240)	(62,034)
Changes in working capital:		
Increase in trade and other receivables	(240,894)	(36,591)
Decrease (increase) in derivatives	3,986	(5,536)
Increase in inventories	(56,462)	(66,880)
Decrease in accrued tobacco excise and other taxes	4,575	9,731
Decrease in advance payments	10	44,659
Decrease in prepaid expenses	1,561	1,361
Increase (decrease) in trade and other payables	26,839	(19,913)
Decrease in advance receipts	(8,755)	(49,429)
Increase (decrease) in tobacco excise and other taxes payable	2,985	(21,015)
Decrease in provision for site restoration	(3,556)	-
Increase in net defined benefit liabilities	296	598
Cash generated from operations	₩ 33,669	₩ 149,161