



KT&G Corporation and Subsidiaries
Consolidated Interim Financial Statements
March 31, 2021

KT&G Corporation and Subsidiaries

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March 31, 2021 and 2020

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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 consolidated interim financial statements of KT&G Corporation and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at March 31, 2021, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 the following issues to the consolidated interim financial statements.

Impact of Coronavirus disease 2019

As discussed in Note 3 to the consolidated interim financial statements, it describes uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Group's productivity and operating environments.

Restatement of prior period financial statements

As discussed in Note 24 to the consolidated interim financial statements, the Group restated and disclosed the financial statement as at and for the year ended December 31, 2019 and prior period's financial statements in relation to the scope of consolidation and others. In this regard, the consolidated interim financial statements for the three-month period ended March 31, 2020, presented herein for comparative purposes, were also restated to reflect these adjustments.

Other Matters

The consolidated interim 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*.

Meanwhile, the consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2020 on which another auditor expressed an unqualified opinion do not reflect adjustments described in Note 24. The comparative consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2020, reflect the adjustments. We were not engaged to audit or review or apply any procedures to the consolidated interim statement of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2020 including the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated interim statement of comprehensive income for the three-month period ended March 31, 2020 taken as a whole.

Meanwhile, the consolidated statement of financial position of the Group as at December 31, 2020, and the related consolidated 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 consolidated 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 consolidated 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 and Subsidiaries
Consolidated Interim Statements of Financial Position
March 31, 2021 and December 31, 2020



(in Korean won)

	Notes	March 31, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	21	₩ 1,314,316,155,709	₩ 1,253,611,491,485
Current other financial assets	21,22	425,532,290,951	407,735,098,979
Current financial assets at fair value through profit or loss	21	862,684,762,949	914,423,857,131
Trade and other receivables	5,15,20,21	1,435,020,657,094	1,215,049,112,141
Current financial assets measured at fair value through other comprehensive income or loss	21	12,200,000,000	-
Derivative assets	21,22	878,814,824	12,710,170,259
Inventories	6	2,446,981,717,160	2,535,032,331,643
Refund assets and others		900,417,063	1,055,336,156
Accrued tobacco excise and other taxes		289,824,034,842	271,576,536,047
Advance payments		96,778,247,862	96,525,759,106
Prepaid expenses		53,198,115,935	39,982,310,895
Assets held for sale	4	2,000,000,000	2,680,613,295
Total current assets		6,940,315,214,389	6,750,382,617,137
Non-current assets			
Long-term other financial assets	21,22	10,195,638,897	10,129,160,820
Long-term deposits in MSA Escrow Fund	21,22	1,009,093,452,923	909,793,848,086
Long-term financial assets measured at fair value through profit or loss	21,22	230,984,287,599	253,562,005,029
Long-term trade and other receivables	5,20,21	96,791,615,869	97,408,876,060
Long-term financial assets measured at fair value through other comprehensive income or loss	21,22	243,528,855,648	239,539,297,251
Investments in associates and joint ventures	4,7,20,22	132,311,012,642	132,186,631,034
Property, plant and equipment	8,22	1,732,224,827,297	1,718,412,218,663
Intangible assets	9	138,462,147,267	134,083,879,591
Investment properties	10,22	1,049,507,970,330	1,030,179,338,792
Right-of-use assets	11	46,438,949,911	49,088,378,254
Long-term advance payments		82,913,736,343	83,059,283,710
Long-term prepaid expenses		8,954,462,124	9,578,669,254
Deferred income tax assets	19	44,667,405,443	50,933,089,250
Net defined benefit assets	13	-	45,859,229
Total non-current assets		4,826,074,362,293	4,718,000,535,023
Total assets		₩ 11,766,389,576,682	₩ 11,468,383,152,160
Liabilities			
Current liabilities			
Short-term borrowings	12,21,22	₩ 24,052,979,043	₩ 17,308,208,182
Current portion of long-term borrowings	12,21,22	37,506,480,000	37,506,480,000
Trade and other payables	20,21,22	1,456,260,708,258	969,201,720,579
Current lease liabilities	21	18,915,854,950	19,879,792,617
Derivative liabilities	21,22	4,048,056,332	57,106,354
Advance receipts	15	110,331,670,537	100,836,686,048
Current refund liabilities and provisions	14,22	25,159,097,011	27,508,655,465
Current income tax liabilities	19	225,035,832,543	234,566,275,361
Tobacco excise and other taxes payables		672,181,132,747	584,576,087,074
Liabilities held for sale	4	-	51,000,609
Total current liabilities		2,573,491,811,421	1,991,492,012,289
Non-current liabilities			
Long-term borrowings	12,21,22	53,298,022,409	53,492,407,968
Long-term trade and other payables	20,21,22	48,483,297,839	49,479,702,490
Long-term lease liabilities	21	23,736,708,486	25,828,963,710
Long-term advance receipts		8,183,392,898	8,193,185,016
Net defined benefit liabilities	13,20	116,956,140,063	112,959,451,518
Long-term refund liabilities and provisions	14,22	2,838,468,294	3,192,103,226
Deferred income tax liabilities	19	150,885,511,638	130,558,400,937
Non-controlling interests liabilities	21	2,563,053,914	1,615,268,761
Total non-current liabilities		406,944,595,541	385,319,483,626
Total liabilities		2,980,436,406,962	2,376,811,495,915

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

<i>(in Korean won)</i>	Notes	March 31, 2021	December 31, 2020
Equity			
Share capital		954,959,485,000	954,959,485,000
Other capital surplus		4,497,785,722	4,497,785,722
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		6,460,164,501,580	5,977,643,096,280
Retained earnings		1,315,330,196,876	2,102,474,813,562
Equity attributable to owners of the Parent Company		<u>8,732,227,929,505</u>	<u>9,036,851,140,891</u>
Non-controlling interest		<u>53,725,240,215</u>	<u>54,720,515,354</u>
Total equity		<u>8,785,953,169,720</u>	<u>9,091,571,656,245</u>
Total liabilities and equity	₩	<u>11,766,389,576,682</u>	₩ <u>11,468,383,152,160</u>

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

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



<i>(in Korean won)</i>	Notes	2021	2020 (Unreviewed)
Sales	4,20	₩ 1,263,901,253,861	₩ 1,178,410,308,223
Cost of sales		<u>(571,107,510,430)</u>	<u>(497,649,821,567)</u>
Gross profit		692,793,743,431	680,760,486,656
Selling, general and administrative expense	16,20	<u>(375,111,794,977)</u>	<u>(366,353,699,557)</u>
Operating profit	4	317,681,948,454	314,406,787,099
Other income	17,20,21	75,152,799,448	92,768,449,132
Other expense	17,20,21	(24,446,463,843)	(53,548,180,712)
Finance income	18,21	20,398,031,185	63,375,982,925
Finance costs	18,21	(5,733,964,299)	(6,531,100,520)
Share of net profit of associates and joint ventures	7	20,911,569	4,520,810,435
Profit before income tax		383,073,262,514	414,992,748,359
Income tax expense	19	<u>(110,465,461,685)</u>	<u>(121,485,668,228)</u>
Profit for the period		<u>₩ 272,607,800,829</u>	<u>₩ 293,507,080,131</u>
Other comprehensive income (loss) for the period after income tax		₩ 17,357,343,046	₩ (69,633,774,857)
Items that will not be reclassified to profit or loss		11,589,284,441	(49,099,006,088)
Re-measurements of net defined benefit liabilities		(410,593,757)	(266,116,908)
Gain (loss) on valuation of fair value through other comprehensive income or loss	21	12,000,142,837	(48,789,038,819)
Capital changes in equity method	7	(264,639)	(43,850,361)
Items that will be reclassified to profit or loss		5,768,058,605	(20,534,768,769)
Exchange differences on translating foreign operations		5,767,952,817	(20,534,768,769)
Capital changes in equity method	7	105,788	-
Total comprehensive income for the period		<u>₩ 289,965,143,875</u>	<u>₩ 223,873,305,274</u>
Profit for the period is attributable to:			
Owners of the Parent Company		₩ 273,488,997,127	₩ 292,635,690,127
Non-controlling interests		<u>(881,196,298)</u>	<u>871,390,004</u>
Total		<u>272,607,800,829</u>	<u>293,507,080,131</u>
Other comprehensive income for the period attributable to:			
Owners of the Parent Company		₩ 290,960,419,014	₩ 222,995,718,911
Non-controlling interests		<u>(995,275,139)</u>	<u>877,586,363</u>
Total		<u>289,965,143,875</u>	<u>223,873,305,274</u>
Basic earnings per share			
Basic and diluted		₩ 2,204	₩ 2,312

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

KT&G Corporation and Subsidiaries
Consolidated 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	Owners of the parent	Non-controlling Interest	Total Equity
Balance at January 1, 2020 (Unreviewed)	₩ 954,959,485,000	₩ 4,497,785,722	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 5,680,008,923,230	₩ 1,834,645,992,314	₩ 8,684,216,790,713	₩ 55,368,697,571	₩ 8,739,585,488,284
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	292,635,690,127	292,635,690,127	871,390,004	293,507,080,131
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(272,313,267)	(272,313,267)	6,196,359	(266,116,908)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(48,789,038,819)	-	(48,789,038,819)	-	(48,789,038,819)
Exchange differences on translating foreign operations	-	-	-	-	(20,534,768,769)	-	(20,534,768,769)	-	(20,534,768,769)
Capital changes in equity method	-	-	-	-	(43,850,361)	-	(43,850,361)	-	(43,850,361)
	-	-	-	-	(69,367,657,949)	(272,313,267)	(69,639,971,216)	6,196,359	(69,633,774,857)
Total comprehensive income (loss) for the period	-	-	-	-	(69,367,657,949)	292,363,376,860	222,995,718,911	877,586,363	223,873,305,274
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(556,951,661,200)	(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)	-	(556,951,661,200)
Balance at March 31, 2020 (Unreviewed)	₩ 954,959,485,000	₩ 4,497,785,722	₩ (318,789,449,459)	₩ 528,894,053,906	₩ 5,941,941,277,866	₩ 1,238,757,695,389	₩ 8,350,260,848,424	₩ 56,246,283,934	₩ 8,406,507,132,358
Balance at January 1, 2021	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,977,643,096,280	₩ 2,102,474,813,562	₩ 9,036,851,140,891	₩ 54,720,515,354	₩ 9,091,571,656,245
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	273,488,997,127	273,488,997,127	(881,196,298)	272,607,800,829
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(412,176,695)	(412,176,695)	1,582,938	(410,593,757)
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	12,000,142,837	-	12,000,142,837	-	12,000,142,837
Exchange differences on translating foreign operations	-	-	-	-	5,883,614,596	-	5,883,614,596	(115,661,779)	5,767,952,817
Capital changes in equity method	-	-	-	-	(158,851)	-	(158,851)	-	(158,851)
	-	-	-	-	17,883,598,582	(412,176,695)	17,471,421,887	(114,078,841)	17,357,343,046
Total comprehensive income (loss) for the period	-	-	-	-	17,883,598,582	273,076,820,432	290,960,419,014	(995,275,139)	289,965,143,875
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(595,583,630,400)	(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)	-	(595,583,630,400)
Balance at March 31, 2021	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,460,164,501,580	₩ 1,315,330,196,876	₩ 8,732,227,929,505	₩ 53,725,240,215	₩ 8,785,953,169,720

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

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



	Notes	2021	2020 (Unreviewed)
<i>(in Korean won)</i>			
Cash flows from operating activities			
	₩	137,205,280,497	₩ 233,644,146,215
Cash generated from operations	23	232,504,836,738	326,585,990,064
Income taxes paid		(95,299,556,241)	(92,941,843,849)
Cash flows from investing activities		(58,605,734,766)	(139,202,408,279)
Interest received		2,780,657,298	7,671,362,342
Dividends received		3,501,017,709	5,238,982,031
Decrease in other financial assets		179,181,175,054	130,340,300,000
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		1,220,727,683	944,970,499
Disposal of intangible assets		-	409,130,910
Disposal of investment properties		413,670,211	2,785,120,000
Disposal of assets held for sale		416,343,285	-
Collection of loans		3,861,436,773	3,039,729,942
Collection of guarantee deposits		68,166,997	16,853,991
Collection of finance lease receivables		33,020,364	108,497,999
Increase in other financial assets		(197,000,000,000)	(275,340,300,000)
Increase in long-term financial assets measured at fair value through profit or loss		(854,500,000)	(900,000,000)
Increase in long-term deposits in MSA Escrow Fund		(59,574,952,158)	(46,579,971,731)
Acquisition of property, plant and equipment		(55,843,249,914)	(33,540,172,119)
Acquisition of intangible assets		(7,591,976,992)	(15,494,169,985)
Acquisition of investment properties		(3,954,902,003)	(12,698,797,475)
Acquisition of right-of-use assets		(2,453,464)	(31,168,900)
Increase in loans		(5,285,637,338)	(7,896,813,145)
Increase in guarantee deposits		(20,911,129)	(102,188,347)
Cash flows from financing activities		(601,529,889)	(8,639,862,727)
Interest paid		(1,051,962,646)	(931,098,978)
Repayment of lease liabilities		(5,450,025,643)	(5,000,297,349)
Repayment of borrowings		(16,602,728,085)	(36,530,124,877)
Capital increase with consideration		-	840,000
Increase in borrowings		22,503,186,485	33,820,818,477
Net increase in cash and cash equivalents		77,998,015,842	85,801,875,209
Cash and cash equivalents at the beginning of the period		1,253,611,491,485	891,306,145,983
Effect of exchange rate fluctuation on cash and cash equivalents		(17,293,351,618)	(7,632,109,556)
Cash and cash equivalents at the end of the period	₩	1,314,316,155,709	₩ 969,475,911,636

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

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2021, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. The Parent 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 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.

The Korean government sold 28,650,000 shares of the Parent Company to the public during 1999, and the Parent Company listed its shares on the Korea Exchange on October 8, 1999. On October 17, 2002, and October 31, 2001, the Parent 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 Parent 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 Parent 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	9.1
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
	<u>137,292,497</u>	<u>100.00</u>

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



1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of March 31, 2021, 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	Mar.31.2021	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	Mar.31.2021	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	Mar.31.2021	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	Mar.31.2021	Turkey
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	Mar.31.2021	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	Mar.31.2021	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	Mar.31.2021	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	Mar.31.2021	USA
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	Mar.31.2021	Korea
	Renzoluc Pte., Ltd. ²	Holding company	100.00	Mar.31.2021	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	Mar.31.2021	Indonesia
	SangSang Stay Inc.	Hotel	100.00	Mar.31.2021	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	Mar.31.2021	Russia
	Gwacheon SangSang PFV	Developing and selling real estate	51.00	Mar.31.2021	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	Mar.31.2021	Taiwan
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	Mar.31.2021	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	Mar.31.2021	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	Mar.31.2021	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	Mar.31.2021	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	Mar.31.2021	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	Mar.31.2021	China
	Korea Ginseng Corporation Japan	Selling ginseng, etc.	100.00	Mar.31.2021	Japan
Cosmocos Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics, etc.	98.56	Mar.31.2021	HongKong
	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	Mar.31.2021	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	Mar.31.2021	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.99	Mar.31.2021	Indonesia

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

² The percentage of ownership, shown above, does not include convertible preferred shares, but will be 88.60% if convertible preferred shares are included as of March 31, 2021.

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

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

2. Significant Accounting Policies

2.1 Basis of Preparation

The Group 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 consolidated interim financial statements have been restructured and translated into English from the Korean language financial statements.

The Group's consolidated 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 consolidated 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 Group

(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 Group has changed the accounting policy for all the rent concessions that meet the requirements. The Group has adopted the accounting policy, retrospectively, as permitted under the specific transitional provisions in the standard. There was no cumulative impact of retrospective application and The Group did not restate comparatives for the 2020 reporting period. The Group recognized ₩ 102 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 Group

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 Group.

(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 Group 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 consolidated interim financial statements are consistent with those of the consolidated 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 Group 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 consolidated interim financial statements are the same as those applied to the consolidated 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 Group, and the impact is expected to be continued to the consolidated annual financial statements in 2021.

Significant accounting estimates and assumptions applied in the preparation of the consolidated interim financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial

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performance cannot presently be determined.

4. Operating Segment

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

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

(b) Segment information on sales and operating profit for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 782,157	₩ 440,211	₩ 108,693	₩ 61,329	₩ 1,392,390	₩ (128,489)	₩ 1,263,901
Intersegment sales	(82,306)	(37,213)	(7,435)	(1,535)	(128,489)	128,489	-
External sales	699,851	402,998	101,258	59,794	1,263,901	-	1,263,901
Operating profit	218,281	58,456	44,095	(3,981)	316,851	831	317,682

(in millions of Korean won)

	2020						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 687,255	₩ 440,112	₩ 86,914	₩ 75,479	₩ 1,289,760	₩ (111,350)	₩ 1,178,410
Intersegment sales	(78,157)	(28,929)	(3,508)	(756)	(111,350)	111,350	-
External sales	609,098	411,183	83,406	74,723	1,178,410	-	1,178,410
Operating profit	206,028	71,412	41,700	665	319,805	(5,398)	314,407

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(c) The Group 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.

<i>(in millions of Korean won)</i>			2021		2020
Revenue recognized at a point in time:					
Tobacco	Wholesale, retail	₩	690,538	₩	603,507
	Direct sales		9,313		5,591
Ginseng	Wholesale, retail		199,813		202,314
	Direct sales		203,185		208,869
Others	Wholesale, retail		52,733		70,353
	Direct sales		7,061		4,370
Subtotal			<u>1,162,643</u>		<u>1,095,004</u>
Revenue recognized over time:					
Real estate	Sales and rental		101,258		83,406
Total			<u>₩ 1,263,901</u>		<u>₩ 1,178,410</u>

(d) Segment information on assets and liabilities as of March 31, 2021 and December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>		March 31, 2021					
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 5,540,715	₩ 2,004,756	₩ 1,541,049	₩ 254,423	₩ 9,340,943	₩ (2,015,028)	₩ 7,325,915
Investments in associates and joint ventures	-	-	128,485	3,826	132,311	-	132,311
Assets held for sale	2,000	-	-	-	2,000	-	2,000
Subtotal	<u>5,542,715</u>	<u>2,004,756</u>	<u>1,669,534</u>	<u>258,249</u>	<u>9,475,254</u>	<u>(2,015,028)</u>	<u>7,460,226</u>
Common assets							<u>4,306,164</u>
Total assets							<u>₩ 11,766,390</u>
Acquisition of non-current assets	58,969	38,576	932	2,839	101,316	(35,610)	65,706
Liabilities:							
Segment liabilities	1,990,152	173,324	55,464	137,214	2,356,154	(502,836)	1,853,318
Common liabilities							<u>1,127,118</u>
Total liabilities							<u>₩ 2,980,436</u>

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	December 31, 2020						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 5,298,576	₩ 2,056,551	₩ 1,469,929	₩ 260,432	₩ 9,085,488	₩ (1,967,586)	₩ 7,117,902
Investments in associates and joint ventures	-	-	128,476	3,711	132,187	-	132,187
Assets held for sale	2,000	681	-	-	2,681	-	2,681
Subtotal	5,300,576	2,057,232	1,598,405	264,143	9,220,356	(1,967,586)	7,252,770
Common assets							4,215,613
Total assets							₩ 11,468,383
Acquisition of non-current assets	330,350	47,615	-	8,853	386,818	(22,032)	364,786
Liabilities:							
Segment liabilities	2,001,388	181,474	1,283	142,008	2,326,153	(463,472)	1,862,681
Liabilities held for sale	-	51	-	-	51	-	51
Subtotal	2,001,388	181,525	1,283	142,008	2,326,204	(463,472)	1,862,732
Common liabilities							514,079
Total liabilities							₩ 2,376,811

Cash and cash equivalents, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income or loss, deferred tax assets and others are included in the common assets and borrowings and deferred tax liabilities and others are included in the common liabilities.

(e) Geographical information determined by customer's location for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			2020		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 963,694	₩ 300,207	₩ 1,263,901	₩ 933,592	₩ 244,818	₩ 1,178,410
Non-current assets	2,837,668	128,966	2,966,634	2,681,654	131,882	2,813,536

The above overseas category was not separately classified by region because sales and non-current assets attributed to a particular country are immaterial.

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

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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>	March 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,234,125	₩ -	₩ 1,115,246	₩ -
Loans	15,233	55,397	14,634	54,598
Other receivables	135,333	6,198	38,921	3,357
Guarantee deposits	47,681	35,063	43,363	39,349
Accrued income	2,197	134	2,406	105
Finance lease receivables	452	-	479	-
Total	₩ 1,435,021	₩ 96,792	₩ 1,215,049	₩ 97,409

(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>	March 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,520,993	₩ 97,493	₩ 1,302,636	₩ 97,598
Allowances:				
Trade receivables	(84,985)	-	(86,062)	-
Other receivables	(987)	(701)	(1,525)	(189)
Total allowances	(85,972)	(701)	(87,587)	(189)
Net trade and other receivables	₩ 1,435,021	₩ 96,792	₩ 1,215,049	₩ 97,409

(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>	2021	2020
Beginning balance	₩ 87,776	₩ 121,191
Impairment loss (reversal)	(1,305)	(3,515)
Write off	-	(211)
Net exchange difference	202	(3,585)
Ending balance	₩ 86,673	₩ 113,880

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

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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	₩ 46,401	₩ (4,498)	₩ 41,903	₩ 44,192	₩ (6,513)	₩ 37,679
Finished goods	867,221	(16,544)	850,677	849,715	(14,604)	835,111
Work in progress	581,315	(1,013)	580,302	651,435	(1,190)	650,245
Raw materials	828,469	(1,963)	826,506	838,689	(2,002)	836,687
Supplies	44,182	-	44,182	42,764	-	42,764
By-products	7,052	-	7,052	7,168	-	7,168
Buildings under construction	23,684	-	23,684	15,656	-	15,656
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate	36,376	-	36,376	58,181	-	58,181
Goods in transit	34,810	-	34,810	50,051	-	50,051
Total	₩ 2,471,000	₩ (24,018)	₩ 2,446,982	₩ 2,559,341	₩ (24,309)	₩ 2,535,032

(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)	₩ (38)	₩ 4,149
Loss on obsolescence of inventories	2,545	661
Other expense:		
Loss on obsolescence of inventories	339	-
Total	₩ 2,846	₩ 4,810

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7. Investments in Associates and Joint Ventures

Changes in the carrying amount of investment in associates and joint ventures for the three-month periods ended March 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 132,187	₩ 49,393
Acquisition	121	-
Equity method gains and losses	21	4,521
Dividends	(18)	-
Changes in equity method capital	-	(60)
Ending balance	₩ 132,311	₩ 53,854

8. Property, Plant and Equipment

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

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 1,718,412	₩ 1,753,739
Acquisition	51,133	28,504
Disposal/obsolescence/impairment loss	(84)	(891)
Depreciation	(38,697)	(37,051)
Transfers	1,461	(39,515)
Ending balance	₩ 1,732,225	₩ 1,704,786

9. Intangible Assets

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

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 134,084	₩ 129,624
Acquisition	7,573	15,494
Disposal/obsolescence/impairment loss	(35)	(495)
Depreciation	(3,609)	(3,416)
Transfers	449	(14,054)
Ending balance	₩ 138,462	₩ 127,153

10. 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	₩ 1,030,179	₩ 885,325
Acquisition	3,990	12,699
Disposal/obsolescence/impairment loss	(408)	(2,929)
Depreciation	(5,435)	(4,431)
Transfers	21,182	45,056
Ending balance	₩ 1,049,508	₩ 935,720

11. 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	₩ 49,088	₩ 45,484
Acquisition	3,010	5,855
Disposal	(178)	(195)
Depreciation	(6,002)	(5,663)
Transfers	521	396
Ending balance	₩ 46,439	₩ 45,877

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12. Borrowings

(a) Short-term borrowings as of March 31, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	Lender	Annual interest rate (%)	March 31, 2021	December 31, 2020
		FTP+0.894~1.874	₩ 5,500	₩ 500
	Hana Bank	Bank Debenture (6 months)+1.970~2.308	10,000	10,000
Borrowings	Hana Bank Bahrain branch	3M LIBOR+1.1	6,229	5,991
	Korea Development Bank	Industrial Financial Debenture (1 year)+0.92	1,500	-
	Subtotal		23,229	16,491
Consumer credit agreements ¹	NH Nonghyup Bank	-	651	633
	Hana Card	-	173	184
	Subtotal		824	817
	Total		₩ 24,053	₩ 17,308

¹The Group 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.

(b) Current portion of long-term borrowings and long-term borrowings as of March 31, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)	March 31, 2021	December 31, 2020
Other financial loan for working capital	NH Nonghyup Bank	2022.05.30 ~ 2025.06.22	-	₩ 50,047	₩ 49,700
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03~1.58	5,417	5,958
Redeemable convertible preferred shares ^{1,2}				35,340	35,340
	Total			90,804	90,998
Consolidated statements of financial position:					
Current ²				37,506	37,506
Non-current				53,298	53,492
	Total			₩ 90,804	₩ 90,998

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¹Redeemable convertible preferred shares as of March 31, 2021 and December 31, 2020, are as follows:

Issuing company	Renzoluc Pte, Ltd.
Issue date	September 14, 2012
Issued value	₩ 35,340 million
Carrying amount	₩ 35,340 million
Maturity	The convertible instrument will mature 10 years from the date of establishment of QCP 2011 Corporate Partnership Private Equity Fund ("PEF").
Convertible rights to ordinary share	The instrument can be converted into 6,978,948 ordinary shares at any time after five years from the issue date.
Repayment claim right	The right to request for liquidation or claim for a stake purchase 270 days prior to the expiration of the PEF.

²As of March 31, 2021, the borrowings, in which the holders of the convertible preferred shares are able to request for a stake purchase within a year, are classified as current-portion of long-term borrowings.

(c) As discussed in Note 22-(c) to the consolidated interim financial statements, the Group is providing collateral for the above borrowings.

13. 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>	2021	2020
Defined benefit plans:		
Current service cost	₩ 13,902	₩ 13,135
Net interest on net defined benefit liabilities (assets)	514	493
Subtotal	14,416	13,628
Defined contribution plan:		
Contributions recognized as expense	2,329	2,269
Other long-term employee benefits:		
Current service cost, etc.	1,046	1,013
Termination benefits:		
Voluntary retirements, etc.	1,732	2,589
Total	₩ 19,523	₩ 19,499

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(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>	March 31, 2021		December 31, 2020	
Present value of defined benefit obligation	₩	609,870	₩	600,984
Fair value of plan assets		(492,914)		(488,070)
Total	₩	116,956	₩	112,914

14. Refund Liabilities and Provisions

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

<i>(in millions of Korean won)</i>	March 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 5,773	₩ -	₩ 4,464	₩ -
Refund liabilities	9,054	1,487	9,796	1,447
Provision for site restoration	9,189	1,013	12,354	1,122
Provision for financial guarantee	198	337	-	622
Provision for greenhouse gases	194	-	178	-
Provision for others	751	1	717	1
Total	₩ 25,159	₩ 2,838	₩ 27,509	₩ 3,192

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

<i>(in millions of Korean won)</i>	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 2,041	₩ (732)	₩ 5,773
Refund liabilities	11,243	1,508	(2,210)	10,541
Provision for site restoration	13,476	311	(3,585)	10,202
Provision for financial guarantee	622	-	(87)	535
Provision for greenhouse gases	178	16	-	194
Provision for others	718	34	-	752
Total	₩ 30,701	₩ 3,910	₩ (6,614)	₩ 27,997

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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	13,374	1,207	(2,439)	12,142
Provision for site restoration	10,693	497	(53)	11,137
Provision for financial guarantee	492	-	(58)	434
Provision for greenhouse gases	-	-	-	-
Provision for others	1,504	-	(201)	1,303
Total	₩ 29,757	₩ 2,334	₩ (4,037)	₩ 28,054

15. 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) ¹
Gwacheon sangsang Xi tower B	January 2021	May 2023	2.8	₩ 239,568	₩ 239,568	₩ 6,708	₩ 6,708	₩ 3,887
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				₩ 2,331,487	₩ 2,283,643	₩ 1,139,114	₩ 84,795	₩ 497,050

¹ 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) ¹	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

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¹Excludes 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).

(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
Gwacheon sangsang Xi tower B	₩ 6,708	₩ 23,957	₩ -	₩ 17,249
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 briel	84,173	152,327	-	68,154
Total	₩ 1,139,114	₩ 958,271	₩ 266,246	₩ 85,403

(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 briel	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.

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16. Selling, General and Administrative Expenses

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

(in millions of Korean won)

	2021	2020
Salaries	₩ 112,663	₩ 110,040
Retirement and termination benefits	12,361	12,991
Employee welfare	13,263	13,588
Travel expenses	1,527	2,864
Communication cost	1,426	1,364
Utilities	3,379	3,153
Taxes and dues	2,655	3,449
Supplies	1,507	1,547
Rent	3,649	3,693
Depreciation	15,024	15,109
Amortization	3,568	3,373
Repairs and maintenance	1,137	1,218
Vehicles	1,493	1,701
Insurance	1,671	1,106
Commissions	110,225	112,529
Freight and custody	16,210	14,357
Conferences	523	848
Advertising	56,158	55,092
Education and training	1,243	1,241
Prizes and rewards	391	580
Cooperation	291	269
Research and development	15,965	9,914
Reversal of impairment loss on trade receivables	(1,217)	(3,672)
Total	₩ 375,112	₩ 366,354

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17. 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>		2021		2020
Gain on foreign currency transaction	₩	7,717	₩	52,947
Gain on foreign currency translation		65,247		32,523
Gain on valuation of derivatives		5		-
Reversal of impairment loss on other receivables		88		-
Gain on disposal of property, plant and equipment		158		584
Gain on disposal of investment property		5		-
Gain on lease contract adjustments		30		82
Gain on disposal of investments in associates and joint ventures		122		-
Miscellaneous income		1,781		6,632
Total	₩	75,153	₩	92,768

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

<i>(in millions of Korean won)</i>		2021		2020
Loss on foreign currency transaction	₩	1,613	₩	5,389
Loss on foreign currency translation		9,417		25,632
Loss on valuation of derivatives		11,841		16,829
Loss on impairment of other receivables		-		157
Loss on disposal of property, plant and equipment		76		532
Loss on disposal of intangible assets		-		86
Loss on impairment of intangible assets		35		-
Loss on disposal of investment properties		-		144
Loss on disposal of assets held for sale		297		-
Donations		903		1,106
Loss on lease contract adjustments		4		19
Miscellaneous loss		260		3,654
Total	₩	24,446	₩	53,548

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18. Finance Income and Cost

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

<i>(in millions of Korean won)</i>	2021		2020	
Finance income:				
Interest income ¹	₩	3,364	₩	7,369
Dividend income		8,757		11,633
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	₩	20,398	₩	63,376
Finance cost:				
Interest expense	₩	(2,332)	₩	(1,780)
Loss on valuation of fair value through profit or loss		(3,402)		(4,751)
Total finance cost	₩	(5,734)	₩	(6,531)
Net finance income	₩	14,664	₩	56,845

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

19. 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 28.84% and 29.27%, respectively.

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20. Related Parties

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

	March 31, 2021	December 31, 2020
Associates	LitePharmTech Co., Ltd. ¹	LitePharmTech Co., Ltd. ¹
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ¹	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ¹
	KORAMCO Banpo Project Financing Vehicle Co., Ltd. ¹	KORAMCO Banpo Project Financing Vehicle Co., Ltd. ¹
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. ¹	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. ¹
	KORAMCO Amsa Project Financing Vehicle Co., Ltd. ¹	KORAMCO Amsa Project Financing Vehicle Co., Ltd. ¹
	Others	Others
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ²	KORAMCO Europe Private REIT 3-2 Fund ²
	Starfield Suwon, Inc.	Starfield Suwon, Inc.

¹It is classified as an investment in associates although the Group's holdings in the invested company are 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 Group determined that it has significant influence over the invested company.

²It 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.

(b) The Group carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for the three-month period ended March 31, 2021, are as follows, and there are no transactions for the three-month period ended March 31, 2020:

(in millions of Korean won)

Type	Name of entity	Sales and other revenue	Purchase and other expenses
Associates	Others	₩ 18	₩ 270

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

(in millions of Korean won)

Type	Name of entity	March 31, 2021		December 31, 2020	
		Receivables	Payables	Receivables	Payables
Associates	Others	₩ 18	₩ 33	₩ -	₩ 32

(d) There are no payment guarantees provided between or among the related parties.

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

(in millions of Korean won)

	2021		2020	
Short-term and long-term employee benefits	₩	6,163	₩	5,106
Retirement benefits		602		528
Total	₩	6,765	₩	5,634

21. Risk Management and Fair Value of Financial Instruments

In relation to financial instruments, the Group is exposed to 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 reduce, eliminate and avoid them to an acceptable level. The Group prepares and operates the company-wide risk management policies and procedures and the finance department of the Group has overall responsibility for risk management. The finance department of the Group is responsible for monitoring and managing the financial risks associated with the operations of the Group in accordance with the risk management policies and procedures approved by the board of directors, and it periodically analyzes the nature and exposure of the financial risks. In addition, the Parent Company's audit committee continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Group'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 Group's financial instruments. The Group manages and controls market risk exposures 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 currency risk of fluctuations to the Korean won on a regular basis.

② Price risk

The Group 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 Group 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 Group.

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of March 31, 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 Group 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 Group 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 Group 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 Group 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 Group is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash etc., or other financial assets. To manage liquidity risk, the management of the Group establishes short and mid-to-long term financial management plan and continuously analyzes and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Group determines that the financial liabilities are redeemable through cash flows from operating activities and cash inflows from financial assets.

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(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>	March 31, 2021	December 31, 2020
Financial assets:		
Fair value through profit or loss ¹	₩ 1,640,364	₩ 2,021,289
Fair value through other comprehensive income or loss	255,729	239,539
Derivative assets	879	12,710
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	767,622	400,308
Other financial assets	435,728	417,864
Trade and other receivables	1,531,812	1,312,458
Long-term deposits in MSA Escrow Fund	1,009,093	909,794
Subtotal	3,744,255	3,040,424
Total financial assets	₩ 5,641,227	₩ 5,313,962
Financial liabilities:		
Derivative liabilities	₩ 4,048	₩ 57
Financial liabilities measured at amortized cost		
Short-term borrowings	24,053	17,308
Current portion of long-term borrowings	37,506	37,506
Long-term borrowings	53,298	53,492
Trade and other payables	1,154,956	645,365
Lease liabilities	42,653	45,709
Liabilities for non-controlling interests	2,563	1,615
Subtotal	1,315,029	800,995
Total financial assets	₩ 1,319,077	₩ 801,052

¹ As of March 31, 2021, money market trust worth ₩ 546,695 million (December 31, 2020: ₩ 853,304 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 Group 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:

	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

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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)	March 31, 2021				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss ¹	₩ 1,640,364	₩ -	₩ 1,405,531	₩ 234,833	
Fair value through other comprehensive income or loss	255,729	208,860	-	46,869	
Derivative assets	879	-	879	-	
Total financial assets	₩ 1,896,972	₩ 208,860	₩ 1,406,410	₩ 281,702	
Derivative liabilities	₩ 4,048	₩ -	₩ 4,048	₩ -	

¹ As of March 31, 2021, money market trust worth ₩ 546,695 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(in millions of Korean won)	December 31, 2020				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss ¹	₩ 2,021,289	₩ -	₩ 1,785,944	₩ 235,345	
Fair value through other comprehensive income or loss	239,539	192,658	-	46,881	
Derivative assets	12,710	-	12,710	-	
Total financial assets	₩ 2,273,538	₩ 192,658	₩ 1,798,654	₩ 282,226	
Derivative liabilities	₩ 57	₩ -	₩ 57	₩ -	

¹ As of December 31, 2020, money market trust worth ₩ 853,304 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.

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:

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(in millions of Korean won)

	2021	2020
Beginning balance	₩ 282,226	₩ 300,427
Acquisition	854	900
Disposal	(600)	(31,088)
Changes in fair value	(778)	1,664
Ending balance	₩ 281,702	₩ 271,903

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

	2021					
(in millions of Korean won)	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	₩ -	₩ -	₩ -	₩ 3,364	₩ -	₩ 3,364
Dividend income	2,178	6,579	-	-	-	8,757
Gain or loss on valuation	4,875	-	(11,836)	-	-	(6,961)
Interest expense	-	-	-	-	(2,332)	(2,332)
Reversal of impairment loss	-	-	-	1,305	-	1,305
Gain or loss on lease contract adjustments	-	-	-	-	26	26
Total	₩ 7,053	₩ 6,579	₩ (11,836)	₩ 4,669	₩ (2,306)	₩ 4,159
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 16,190	₩ -	₩ -	₩ -	₩ 16,190

	2020					
(in millions of Korean won)	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	₩ -	₩ -	₩ -	₩ 7,369	₩ -	₩ 7,369
Dividend income	4,134	7,499	-	-	-	11,633
Gain or loss on valuation	10,320	-	(16,829)	-	-	(6,509)
Gain on disposal	-	-	-	29,303	-	29,303
Interest expense	-	-	-	-	(1,780)	(1,780)
Reversal of impairment loss	-	-	-	3,515	-	3,515
Gain or loss on lease contract adjustments	-	-	-	-	63	63
Total	₩ 14,454	₩ 7,499	₩ (16,829)	₩ 40,187	₩ (1,717)	₩ 43,594
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (67,074)	₩ -	₩ -	₩ -	₩ (67,074)

22. Contingent Liabilities and Commitments

(a) Litigation cases

As of March 31, 2021, the Group has 23 cases of pending litigations under progress where the Group is the defendant and the litigation value is ₩ 74,570 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of March 31, 2021, on the consolidated financial statements of the Group.

(b) Commitments with financial institutions

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

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

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank and one other	USD	120,300
Derivatives trading ¹	Hana Bank and five others	USD	374,700
Trade receivables factoring agreement	Hana Bank	KRW	7,000
Discount of notes	Korea Development Bank	KRW	8,000
Others	Korea Development Bank and five others	KRW	238,036
	Hana Bank Bahrain branch	USD	6,600

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

As of March 31, 2021, the Group 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.

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(c) Payment guarantees and collateral

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	1,433,352	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	4,014	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	25,005	Escrow deposit guarantee
Liberty Mutual and two others	USD	567	Payment guarantees on license bond
Garanti Bank	TRY	2,508	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves.
GS E&C and two others	KRW	78,000	Establishment of a pledge right to stocks

As of March 31, 2021, the Group currently holds inventories from Alokozay International Limited worth ₩ 9,300 million as collateral in order to improve collection of receivables.

As of March 31, 2020, the Group 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 Parent 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 Group 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)		₩ 139,400	₩ 89,995	
Buyer of Suwon hwaseo park prugio (Efficiency apartment)	Shinhan Bank and three others	9,480	8,875	Loan guarantee for the intermediate payment of off-plan sales construction
Buyer of Suwon hwaseo prugio briel		76,720	12,619	
Buyer of Gwacheon sangsang Xi tower B		101,740	-	
Busan Namgu Agency	Korea Special Sales Association	2,172	-	Payment guarantee for deductibles
Total		₩ 329,512	₩ 111,489	

The Group 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 12).

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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
	₩ 100,528	₩ 3,488	₩ 4,186	Wonju City-Office	Establishment of right to collateral security through a government
Property, plant and equipment	57,842	7,917	52,000	Hana Bank one other	
	17,458	13,000	24,000	Hana Bank	Collateral for borrowings
Property, plant and equipment	23,081	-	2,400	Korea Development Bank	
Investment property	8,713				
	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	₩ 703,277	₩ 50,746	₩ 120,648		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of March 31, 2021, are as follows:

	Type	Quantity	Face amount	Details
Jinheung Savings Bank	Draft bill	1 note	₩ 1,000 million	Not collected after debt dissipation
	Cheque	1 note	Blank	Not collected after debt dissipation

As of March 31, 2021, other than explained above, 11 notes and two cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for these bills.

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

<i>(in millions of Korean won)</i>		March 31, 2021	December 31, 2020
	Establishment of a pledge to guarantee real estate development	₩ 8,540	₩ 8,540
	Establishment of a pledge for leasehold deposits	597	597
Other financial assets	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Security deposits for checking accounts, etc.	1,703	1,635
	Total	₩ 110,840	₩ 110,772

(d) Others

Each year, the Group 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 Group, 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 Group after 25 years from the date of each deposit. The Group 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 they consist of T-Notes, T-bills and demand deposits.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩ 82,855 million as of March 31, 2021 (December 31, 2020: ₩ 82,940 million) and ₩ 28,725 million as of March 31, 2021 (December 31, 2020: ₩ 18,643 million), respectively.

As of March 17, 2011, the Group 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.

As of March 31, 2021, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services, Inc.

The Group is currently operating Starfield Suwon, Inc. Corporation 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 Group 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 Group. However, the Group 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 Group 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 Group is being provided with a commitment from GS Engineering & Construction Corp to complete the construction of Gwacheon sangsang Xi tower, and from Daewoo Engineering & Construction Co., Ltd. to complete the construction of Suwon hwaseo park prugio (Apartment), Suwon hwaseo park prugio (Efficiency apartment), Suwon hwaseo prugio

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briciel. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Construction Guarantee Cooperative in connection with the construction in Suwon.

As of March 31, 2021, tax investigations are under way for subsidiaries in Indonesia (PT Trisakti Purwosari Makmur and PT KT&G Indonesia) and a subsidiary in Turkey (KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.).

23. 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>	2021		2020	
	₩		₩	
Profit for the period		272,608		293,507
Adjustments:				
Employee welfare		1,216		787
Retirement benefits		13,662		12,917
Loss on valuation or obsolescence of inventories		2,846		4,810
Depreciation		50,134		47,145
Amortization		3,609		3,416
Reversal of impairment loss on trade and other receivables		(1,305)		(3,515)
Loss on foreign currency translation		9,417		25,632
Loss on valuation of derivatives		11,841		16,829
Loss on disposal of property, plant and equipment		76		532
Loss on disposal of intangible assets		-		86
Loss on impairment of intangible assets		35		-
Loss on disposal of investment properties		-		144
Loss on disposal of assets held for sale		297		-
Other expenses, etc.		243		583
Finance cost		5,734		6,531
Income tax expense		110,465		121,486
Gain on foreign currency translation		(65,247)		(32,523)
Gain on valuation of derivatives		(5)		-
Gain on disposal of property, plant and equipment		(158)		(584)
Gain on disposal of investment property		(5)		-
Gain on disposal of investments in associates and joint ventures		(122)		-
Other income, etc.		150		(48,421)
Finance income		(20,398)		(63,376)
Increase of investments in associates and joint ventures due to share of net gain/loss		(21)		(4,521)

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Changes in working capital:

Decrease (increase) in trade and other receivables	(189,521)	2,360
Decrease (increase) in derivatives	3,986	(5,536)
Decrease (increase) in inventories	23,009	(12,341)
Decrease (increase) in accrued tobacco excise and other taxes	(17,561)	16,897
Decrease (increase) in advance payments	(13,054)	26,781
Decrease (increase) in prepaid expenses	(12,727)	1,109
Increase (decrease) in trade and other payables	15,469	(16,431)
Increase (decrease) in advance receipts	9,485	(52,294)
Increase (decrease) in tobacco excise and other taxes payable	30,881	(14,582)
Decrease in provision for site restoration	(3,558)	-
Decrease in net defined benefit liabilities	(8,976)	(842)
Cash generated from operations	<u>₩ 232,505</u>	<u>₩ 326,586</u>

24. Restatement of Prior Period Financial Statements

The consolidated interim financial statements for the three-month period ended March 31, 2020, presented for comparative purposes were restated to reflect adjustments resulting from the judgment of control over PT Trisakti Purwosari Makmur and others.

The effects of the adjustments on the Group's net assets and profit for the period are as follows:

<i>(in millions of Korean won)</i>	Net Assets	Profit (loss) for the period
Exclusion of PT Trisakti Purwosari Makmur from the scope of consolidation	₩ 36,485	₩ (987)
Recognition of impairment on subsidiaries	(6,307)	380
Income tax effect of adjustments	3,106	239
Total	<u>₩ 33,284</u>	<u>₩ (368)</u>

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The effects of the above adjustments on the consolidated interim financial statements are as follows (the amount previously reported below is the reported amount of the consolidated interim financial statements attached to the review report dated May 15, 2020):

Consolidated interim statements of financial position

<i>(in millions of Korean won)</i>	Amount previously reported	Adjustments	Restated amount
Assets			
Current assets	₩ 6,557,856	₩ 30	₩ 6,557,886
Inventories	2,414,287	30	2,414,317
Non-current assets	4,301,578	39,705	4,341,283
Property, plant and equipment	1,704,405	381	1,704,786
Intangible assets	87,829	39,324	127,153
Total assets	₩ 10,859,434	₩ 39,735	₩ 10,899,169
Liabilities and equity			
Liabilities			
Current liabilities	₩ 2,088,617	₩ -	₩ 2,088,617
Non-current liabilities	397,594	6,451	404,045
Deferred income tax liabilities	127,273	6,451	133,724
Total equity	₩ 2,486,211	₩ 6,451	₩ 2,492,662
Equity			
Other capital surplus	₩ (29,556)	₩ 34,054	₩ 4,498
Reserves	5,933,412	8,529	5,941,941
Retained earnings	1,248,057	(9,299)	1,238,758
Equity attributable to owners of the Parent Company	8,316,977	33,284	8,350,261
Non-controlling interest	56,246	-	56,246
Total equity	₩ 8,373,223	₩ 33,284	₩ 8,406,507
Total liabilities and equity	₩ 10,859,434	₩ 39,735	₩ 10,899,169

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Consolidated interim statements of comprehensive Income

<i>(in millions of Korean won)</i>	Amount previously reported	Adjustments	Restated amount
Sales	₩ 1,178,410	₩ -	₩ 1,178,410
Cost of sales	(497,650)	-	(497,650)
Gross profit	680,760	-	680,760
Selling, general and administrative expense	(365,746)	(607)	(366,353)
Operating profit	315,014	(607)	314,407
Other income	92,768	-	92,768
Other expense	(53,548)	-	(53,548)
Finance income	63,376	-	63,376
Finance costs	(6,531)	-	(6,531)
Share of net profit of associates and joint ventures	4,521	-	4,521
Profit before income tax	415,600	(607)	414,993
Income tax expense	(121,725)	239	(121,486)
Profit for the period	293,875	(368)	293,507
Other comprehensive income	(69,634)	-	(69,634)
Total comprehensive income for the period	₩ 224,241	₩ (368)	₩ 223,873
Basic and diluted earnings per shares <i>(in Korean won)</i>	₩ 2,315	₩ (3)	₩ 2,312

Consolidated interim statements of changes in equity

The adjustments due to the restatement of the consolidated interim statement of financial position and consolidated interim comprehensive income statement were reflected.

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Consolidated interim statements of cash flows

<i>(in millions of Korean won)</i>	Amount previously reported	Adjustments	Restated amount
Cash flows from operating activities	₩ 233,644	₩ -	₩ 233,644
Profit for the period	293,875	(368)	293,507
Income tax expense	121,725	(239)	121,486
amortization	2,809	607	3,416
Cash flows from investing activities	(139,202)	-	(139,202)
Cash flows from financing activities	(8,640)	-	(8,640)
Net increase in cash and cash equivalents	85,802	-	85,802
Cash and cash equivalents at January 1	891,306	-	891,306
Effect of exchange rate fluctuation on cash and cash equivalents	(7,632)	-	(7,632)
Cash and cash equivalents at the end of the period	₩ 969,476	₩ -	₩ 969,476