

KT&G Corporation
Separate Financial Statements
December 31, 2021 and 2020

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December 31, 2021 and 2020

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying separate financial statements of KT&G Corporation (the "Company"), which comprise the separate statement of financial position as of December 31, 2021, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2021, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

We have also audited, in accordance with the Korean Standards on Auditing, the internal control over financial reporting of the Company as of December 31, 2021, based on 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting', and our report dated March 18, 2022, expressed an unqualified opinion.

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the separate financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the separate financial statements of the Company. As discussed in Note 3 to the separate financial statements, it describes management's plans and action taken to resolve uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's productivity and ability to satisfy customer's orders.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment in carrying amount of Investments in subsidiaries

Key Audit Matter

As described in Note 3, the Company reviews if there is any indication of impairment for investments in subsidiaries at the end of each reporting period. The Company performs an impairment assessment in accordance with Korean IFRS 1036 *Impairment of Assets* for investments in subsidiaries for which there are indications of impairment, and recognizes impairment loss when the estimated recoverable amount is less than the carrying amount.

The Company engaged independent external experts to assess the impairment of investments in subsidiaries, and evaluated the value in use and fair value less costs to sell as recoverable amounts when performing the impairment assessment on investments in subsidiaries. Considering that the size of investments in subsidiaries subject to the impairment assessment is significant, and management's significant assumptions are involved in determining assessment method for assessing recoverable amounts, business plan and discount rates used for estimating value in use, fair values of assets and liabilities used for fair value less costs to sell and others, we determined the impairment assessment in CGU as a key audit matter.

How our audit addressed the Key Audit Matter

We performed audit procedures to respond to the key audit matter include the followings:

- We tested the effectiveness of the design and operation of controls over the impairment assessment on investments in subsidiaries.
- We evaluated the objectivity and competence of independent external experts used by the Company.
- We made inquiries on and conducted a review of valuation model used by the Company, and assessing the consistency with the prior year.
- We confirmed whether the expected future cash flows used to measure the value in use have been approved by the board of directors and are consistent with basic financial information.
- We evaluated the appropriateness of the business plan estimation by management by comparing business plans used in the impairment assessment in the prior year with actual business performance in the current year.
- We compared the discount rate computed independently using the observable information with the discount rate used by management for assessing value in use.
- We evaluated the appropriateness of adjustment on fair value assessment on assets and liabilities of investments in subsidiaries.
- We evaluated the reasonableness of assumptions used in the assessment.

Other Matters

The separate financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unqualified opinion on those statements on March 11, 2021.

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Heung-Su, Certified Public Accountant.

Seoul, Korea
March 18, 2022

This report is effective as of March 18, 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate 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 Statements of Financial Position
December 31, 2021 and 2020



(in Korean won)

	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents	5, 32, 33	₩ 590,603,139,764	₩ 1,076,113,853,748
Current other financial assets	5, 32, 33, 34	332,200,000,000	330,596,920,000
Current financial assets at fair value through profit or loss	6, 32, 33	965,384,441,544	914,423,857,131
Trade and other receivables	7, 31, 32	788,803,379,227	1,049,822,176,064
Derivative assets	32, 34	580,339,743	12,710,170,259
Inventories	8	924,901,908,672	993,341,734,193
Refund assets and others	20	1,549,159,785	3,543,976
Accrued tobacco excise and other taxes		307,592,828,809	237,745,495,978
Advance payments		71,669,672,717	73,936,767,009
Prepaid expenses		10,813,947,699	17,536,265,109
Assets held for sale	15, 31	14,900,507,758	2,000,000,000
Total current assets		4,008,999,325,718	4,708,230,783,467
Non-current assets			
Long-term other financial assets	5, 32, 34	8,707,220,000	8,540,300,000
Long-term deposits in MSA Escrow Fund	32, 34	1,250,467,510,043	909,793,848,086
Long-term financial assets measured at fair value through profit or loss	6, 32	298,480,561,239	248,604,519,223
Long-term trade and other receivables	7, 31, 32	127,671,062,526	121,173,935,824
Long-term financial assets measured at fair value through other comprehensive income or loss	9, 32	203,172,444,191	214,394,237,251
Investments in associates and joint ventures	10, 31	237,986,101,620	133,885,010,000
Investments in subsidiaries	11, 31	1,201,395,995,281	1,154,257,150,910
Property, plant and equipment	12, 31	1,128,957,038,458	1,139,629,710,585
Intangible assets	13, 31	97,363,311,045	66,322,853,919
Investment properties	14, 34	1,128,470,409,577	1,101,189,083,097
Right-of-use assets	16, 31	22,643,611,457	29,047,382,278
Long-term prepaid expenses		6,962,631,226	8,594,020,771
Deferred income tax assets	29	49,238,252,507	35,880,808,023
Net defined benefit assets	19	11,135,956,233	-
Total non-current assets		5,772,652,105,403	5,171,312,859,967
Total assets		₩ 9,781,651,431,121	₩ 9,879,543,643,434
Liabilities			
Current liabilities			
Short-term borrowings	17, 32, 33, 34, 35	₩ 588,570,275	₩ 816,523,010
Trade and other payables	18, 31, 32	776,356,232,986	811,176,851,324
Current lease liabilities	31, 32, 35	7,343,536,299	8,618,991,597
Derivative liabilities	32, 34	907,708,348	57,106,354
Advance receipts	31	13,104,141,586	96,211,657,084
Current refund liabilities and provisions	20, 34	9,903,555,310	15,303,322,149
Current income tax liabilities	29	210,773,719,060	211,379,530,801
Tobacco excise and other taxes payables		696,436,408,096	574,390,725,117
Total current liabilities		1,715,413,871,960	1,717,954,707,436
Non-current liabilities			
Long-term trade and other payables	18, 31, 32	45,879,579,619	41,530,363,086
Long-term lease liabilities	31, 32, 35	14,876,074,384	20,277,850,236
Long-term advance receipts	31	4,148,654,673	6,625,435,705
Net defined benefit liabilities	19	-	38,161,141,512
Long-term refund liabilities and provisions	20, 34	1,218,175,670	1,051,955,528
Total non-current liabilities		66,122,484,346	107,646,746,067
Total liabilities		1,781,536,356,306	1,825,601,453,503

KT&G Corporation and Subsidiaries
Separate Statements of Financial Position
December 31, 2021 and 2020

<i>(in Korean won)</i>	Notes	2021	2020
Equity			
Share capital	21	₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus	21	3,582,160,908	3,582,160,908
Treasury shares	22	(879,981,829,569)	(531,618,093,579)
Gain on sale of treasury shares	22	528,894,053,906	528,894,053,906
Reserves	23	6,515,544,653,691	6,037,903,146,578
Retained earnings	24	<u>877,116,550,879</u>	<u>1,060,221,437,118</u>
Total equity		<u>8,000,115,074,815</u>	<u>8,053,942,189,931</u>
Total liabilities and equity		<u>₩ 9,781,651,431,121</u>	<u>₩ 9,879,543,643,434</u>

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

KT&G Corporation
Separate Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020



(in Korean won)

	Notes	2021	2020
Sales	4, 25, 31	₩ 3,490,455,807,608	₩ 3,435,384,229,940
Manufacture of tobacco		2,752,009,088,503	2,690,675,650,043
Real estate		647,203,267,762	654,578,109,827
Exports of leaf tobacco and others		91,243,451,343	90,130,470,070
Cost of sales	26, 31	(1,590,203,573,600)	(1,409,121,175,446)
Manufacture of tobacco		(1,190,314,946,021)	(1,038,116,213,288)
Real estate		(327,741,741,075)	(309,775,154,881)
Exports of leaf tobacco and others		(72,146,886,504)	(61,229,807,277)
Gross profit		1,900,252,234,008	2,026,263,054,494
Selling, general and administrative expense	26, 31	(816,828,245,814)	(689,245,124,865)
Operating profit		1,083,423,988,194	1,337,017,929,629
Other income	27, 31	168,213,113,517	276,377,431,262
Other expense	27, 31	(104,940,242,792)	(255,736,374,780)
Finance income	28, 31, 32	71,322,275,280	116,809,867,215
Finance costs	28, 31, 32	(15,217,240,423)	(8,990,540,125)
Profit before income tax		1,202,801,893,776	1,465,478,313,201
Income tax expense	29	(349,857,719,118)	(390,168,825,307)
Profit for the year		₩ 852,944,174,658	₩ 1,075,309,487,894
Other comprehensive income (loss) for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	19	₩ 25,015,632,253	₩ (15,088,050,776)
Gain (loss) on valuation of fair value through other comprehensive income or loss	9, 32	12,160,444,363	(16,582,594,278)
		37,176,076,616	(31,670,645,054)
Total comprehensive income for the year		₩ 890,120,251,274	₩ 1,043,638,842,840
Basic earnings per share			
Basic and diluted	30	₩ 6,894	₩ 8,553

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

KT&G Corporation
Separate Statements of Changes in Equity
Years Ended December 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
Balance at January 1, 2020	₩ 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
Total comprehensive income (loss) for the year							
Profit for the year	-	-	-	-	-	1,075,309,487,894	1,075,309,487,894
Other comprehensive income (loss) for the year:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(15,088,050,776)	(15,088,050,776)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(16,582,594,278)	-	(16,582,594,278)
	-	-	-	-	(16,582,594,278)	(15,088,050,776)	(31,670,645,054)
Total comprehensive income (loss) for the year	-	-	-	-	(16,582,594,278)	1,060,221,437,118	1,043,638,842,840
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(556,951,661,200)	(556,951,661,200)
Transfer to other reserve	-	-	-	-	331,300,012,585	(331,300,012,585)	-
Acquisition of treasury shares	-	-	(212,828,644,120)	-	-	-	(212,828,644,120)
	-	-	(212,828,644,120)	-	331,300,012,585	(888,251,673,785)	(769,780,305,320)
Balance at December 31, 2020	₩ 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
Balance at January 1, 2021	₩ 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
Total comprehensive income (loss) for the year							
Profit for the year	-	-	-	-	-	852,944,174,658	852,944,174,658
Other comprehensive income (loss) for the year:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	25,015,632,253	25,015,632,253
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	12,160,444,363	-	12,160,444,363
Transfer of gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	843,256,032	(843,256,032)	-
	-	-	-	-	13,003,700,395	24,172,376,221	37,176,076,616
Total comprehensive income (loss) for the year	-	-	-	-	13,003,700,395	877,116,550,879	890,120,251,274
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)
Transfer to other reserve	-	-	-	-	464,637,806,718	(464,637,806,718)	-
Acquisition of treasury shares	-	-	(348,363,735,990)	-	-	-	(348,363,735,990)
	-	-	(348,363,735,990)	-	464,637,806,718	(1,060,221,437,118)	(943,947,366,390)
Balance at December 31, 2021	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,515,544,653,691	₩ 877,116,550,879	₩ 8,000,115,074,815

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

KT&G Corporation
Separate Statements of Cash Flows
Years Ended December 31, 2021 and 2020



(in Korean won)

	Notes	2021	2020
Cash flows from operating activities	₩	1,103,678,444,553	₩ 1,186,128,383,369
Cash generated from operations	35	1,481,600,690,337	1,539,693,505,685
Income taxes paid		(377,922,245,784)	(353,565,122,316)
Cash flows from investing activities		(635,132,982,127)	13,287,903,556
Interest received		6,123,211,563	16,179,752,431
Dividends received		28,651,214,644	26,056,275,636
Decrease in other financial assets		200,596,920,000	477,340,300,000
Decrease in current financial assets measured at fair value through profit or loss		157,635,467	340,375,065,790
Decrease in long-term financial assets measured at fair value through profit or loss		20,602,082,570	33,667,340,960
Decrease in financial assets measured at fair value through other comprehensive income or loss		15,894,789,350	3,134,000,000
Decrease in long-term deposits in MSA Escrow Fund		460,542,059	30,190,725,542
Disposal of property, plant and equipment		8,063,743,585	4,114,858,147
Disposal of intangible assets		-	1,000,000,000
Disposal of investment properties		440,084,055	4,407,486,213
Disposal of assets held for sale		551,597,722	145,158,205,702
Disposal of investments in joint ventures		-	21,207,630,232
Collection of loans		17,885,199,414	12,272,638,534
Collection of guarantee deposits		2,373,668,634	100,000,000
Increase in other financial assets		(202,366,920,000)	(436,340,300,000)
Increase in current financial assets measured at fair value through profit or loss		(41,742,688,463)	-
Increase in long-term financial assets measured at fair value through profit or loss		(79,232,000,459)	(12,242,747,773)
Increase in financial assets at fair value through other comprehensive income or loss		(2,999,969,580)	-
Increase in long-term deposits in MSA Escrow Fund		(249,059,995,339)	(223,125,104,602)
Acquisition of property, plant and equipment		(136,134,424,211)	(162,635,660,044)
Acquisition of intangible assets		(38,273,672,075)	(28,696,399,787)
Acquisition of investment properties		(24,240,664,066)	(86,158,241,566)
Acquisition of assets held for sale		-	(3,282,946,350)
Acquisition of investments in associates and joint ventures		(79,786,091,620)	(101,500,000,000)
Acquisition of investments in subsidiaries		(70,371,877,500)	(20,000,000,000)
Increase in loans		(12,604,396,405)	(27,534,858,854)
Increase in guarantee deposits		(120,971,472)	(400,116,655)
Cash flows from financing activities		(954,153,562,201)	(778,477,470,287)
Dividends paid		(595,583,630,400)	(556,951,661,200)
Interest paid		(690,937,774)	(666,443,506)
Repayment of lease liabilities		(9,515,258,037)	(8,030,721,461)
Acquisition of treasury shares		(348,363,735,990)	(212,828,644,120)
Net increase (decrease) in cash and cash equivalents		(485,608,099,775)	420,938,816,638
Cash and cash equivalents at the beginning of the year		1,076,113,853,748	656,775,412,332
Effect of exchange rate fluctuation on cash and cash equivalents		97,385,791	(1,600,375,222)
Cash and cash equivalents at the end of the year	₩	590,603,139,764	₩ 1,076,113,853,748

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

1. Reporting Entity

1.1 Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of December 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 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 December 31, 2021, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	11,677,543	8.51
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	3,860,635	2.81
Treasury shares	17,312,574	12.61
Others	94,931,260	69.14
	<u>137,292,497</u>	<u>100.00</u>

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 financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The separate financial statements have been prepared based on historical cost except for the following:

- certain financial assets and financial liabilities (including derivatives);
- assets held for sale measured at fair value less cost to sell; and
- defined contribution plans and plan assets measured at fair value.

Korean IFRS allows the use of critical accounting estimates in preparation of the separate financial statements and requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

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

The Company has applied the following new or amended standards for the first time for its annual reporting period commencing on January 1, 2021.

(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 Lease - 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 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 Company did not restate comparatives for the 2020 reporting period. The Company recognized ₩ 2 million in profit or loss during the year ended December 31, 2021, to reflect changes in lease payments that arise from a rent concession.

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

(2) New and amended standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2021 reporting period 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) 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.

(e) New Standard: Korean IFRS 1117 Insurance Contract

Korean IFRS 1117 *Insurance Contracts* replaces Korean IFRS 1104 *Insurance Contracts*. This standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 *Financial Instruments*.

(f) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(g) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(h) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(i) 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

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

2.3 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the separate 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 2.2 and the ones described below.

(1) Operating Segments

Information on operating segments is disclosed based on the method of internal reporting to the chief operating decision maker (Note 4). The chief operating decision maker is responsible for the allocation of resources to and evaluating the performance of the operating segments. The Company considers the board of directors, which performs strategic decision making, as its chief operating decision maker.

(2) Investments in Subsidiaries, Associates and Joint Ventures

The Company's financial statements are Separate financial statements pursuant to Korean IFRS 1027. The Company accounts for investments in subsidiaries, associates and joint ventures using the cost method. Dividends received from subsidiaries, associates and joint ventures are recognized through profit or loss when the right to receive dividends is established.

(3) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost, less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attributable to the acquisition of items.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the period incurred.

No depreciation is recognized for land and certain other tangible assets (such as trees and paintings, etc.) classified as property, plant and equipment. Property, plant and equipment, except for land and certain other tangible assets (such as trees and paintings etc.), are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which an asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Company's assets are as follows:

	Estimated useful life (years)
Land	Indefinite
Buildings	10 - 60
Structures	10 - 40
Machinery	10 - 12
Vehicles	4
Tools	4
Equipment	4
Other tangible assets	1 - 5 or indefinite

The Company reviews the residual values and useful lives of assets at the end of each fiscal year and adjusts them, if necessary. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gain or loss on disposal of assets are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

(4) Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on those borrowings during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for

obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(5) Government Subsidies

Government subsidies are only recognized when there is reasonable assurance that the Company will comply with the subsidies grant conditions and that the subsidies will be granted.

Asset related government subsidies are presented as deductions during the calculation of book value. Subsidies related to revenue are deferred and are presented as deductions from expenses related to the purpose of the government subsidies being granted.

(6) Intangible Assets

Intangible assets are measured initially at cost and subsequently are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of intangible assets from the date when they are available for use. The residual value of intangible assets is assumed to be zero.

However, as there are no foreseeable limits to the periods over which some industrial property rights, facility usage rights and intangible assets under development are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

Estimated useful life (years)

Industrial property rights	10 - 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	4

Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at the end of each fiscal year. Intangible assets with indefinite lives are reviewed at the end of each reporting period to determine whether assessment of their useful lives as indefinite are still valid, and adjusted if appropriate. Such changes are accounted for as changes in accounting estimates.

Development costs recognized as intangible assets mainly consist of costs associated with developing information management system. Development costs are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use to sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other expenditures attributable to system repair and maintenance are recognized as expense as incurred.

(7) Investment Property

Property held for earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with an item will flow into the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Routine repair and maintenance costs are recognized in profit or loss as incurred.

No depreciation is recognized for land which is classified as investment property. Investment property, except for land, is depreciated on a straight-line basis over 10-60 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. Such changes are accounted for as changes in accounting estimates.

(8) Assets Held for Sale

Non-current assets, or disposal groups held for sale that are expected to be recovered primarily through sale, rather than through continuous use, are classified as assets held for sale. In order to be classified as assets held for sale, an asset (or a disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. For the asset that had been impaired on the initial reclassification, the impairment loss is recognized immediately in profit or loss if the fair value of the asset decreases, when the fair value increases the impairment loss will be reversed into profit or loss with the limit of accumulated impairment loss recognized so far. However, deferred tax assets, assets generated from employee benefits, and financial instruments which are subject to Korean IFRS 1109 *Financial Instruments* are measured in accordance with the relevant standards.

If the non-current asset is classified as held for sale or is part of a disposal group classified as held for sale, the asset is not amortized.

(9) Inventories

Inventories are measured at the lower of acquisition cost or net realizable value. The acquisition cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The Company applies the following determination method to unit cost price by types of inventories.

Type	Determination method of unit cost price
Merchandise, finished goods, half-finished goods, work in progress, raw materials, supplies and by-products	Weighted-average method or moving-average method
Buildings under construction, completed buildings, sites for construction of real estate and goods in transit	Specific identification method

When inventories are sold, the carrying amount of those inventories are recognized as cost of goods sold in the period in which the related revenue is recognized. Any loss on valuation or loss from inventory shrinkage that reduces the value of inventories to net realizable value are recognized as an expense during the period in which the write-down or shrinkage occurs. Any reversal of inventory valuation losses due to increases in the net realizable value of inventories are deducted from expenses already recognized as cost of goods sold during the period in which the reversal occurs.

(10) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there are any indication of impairment. If any indication of impairment exist, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use are tested for impairment annually by comparing their recoverable amount to their carrying amount, regardless of whether there are any indication of impairment.

If it is impossible to measure the recoverable amounts of individual assets, the recoverable amount of an asset is determined as the higher value between the value-in-use or the fair value less costs to sell for each cash-generating unit ("CGU") that the asset belongs to. If the carrying amount of an asset or a CGU exceeds its recoverable amount, the book value of the asset is reduced and impairment losses are recognized immediately in profit or loss. At the end of each reporting period, the Company tests for signs which show that any impairment loss recognized in the past either no longer exists or there has been a reduction in the amount. Impairment losses are only reversed if changes occur to the estimates used to determine the recoverable amount since the period in which an impairment loss was last recognized.

(11) Financial Assets (Other than Derivative Instruments)

(a) Classification

The Company classifies its financial assets in the following measurement categories:

- Those to be measured at fair value through profit or loss;
- Those to be measured at fair value through other comprehensive income; and
- Those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, classification will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value through other comprehensive income at the time of initial recognition. For equity instruments not held for trading where the Company has not made such an election, subsequent changes in the investment's fair value are recognized through profit or loss.

(b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognized as an expense through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

A. Financial assets measured at amortized cost

Financial assets are measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

B. Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Valuation gains or losses for financial assets measured at fair value are recognized through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized through profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

C. Financial assets measured at fair value through profit or loss

Debt instruments shall be measured at fair value through profit or loss unless they are financial assets measured at amortized cost or at fair value through other comprehensive income. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not subject to a risk hedging relationship is recognized in profit or loss. It is presented in the separate statements of comprehensive income as 'finance income' or 'finance cost' in the period incurred.

- Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments (held for long-term investment or strategic purposes), in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following de-recognition of the investment. Gains and losses related to the disposal of such investments are recognized in retained earnings. Dividend income from such investments continue to be recognized in the separate statements of comprehensive income as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are presented as 'finance income' or 'finance cost' in the separate statements of comprehensive income. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income is not reported separately from other changes in fair value.

(c) Impairment

The Company assesses the expected credit losses associated with its debt instruments measured at amortized cost or measured at fair value through other comprehensive income based on information that projects the future. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and other receivables, the Company applies the simplified approach, which recognizes lifetime expected credit losses from initial recognition of the receivables.

(d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classifies the financial liability as 'borrowings' in the separate statements of financial position.

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(12) Financial Liabilities

(a) Classification and measurement

Financial liabilities of the Company measured at fair value through profit or loss are financial instruments held for trading. Financial liabilities assumed usually for repurchase in the short term are classified as financial liabilities held for trading. Derivative instruments which are not designated as a means of hedge accounting as well as embedded derivative instruments which are separate from financial instruments are also classified as financial instruments held for trading.

All non-derivative financial liabilities are classified as financial liabilities measured at amortized cost and are presented as 'trade and other payables', 'borrowings' or 'lease liabilities' in the separate statements of financial position. Exceptions to this are financial liabilities measured at fair value through profit or loss, financial guarantee contracts and cases where the transfer of financial assets do not satisfy conditions for derecognition.

(b) Derecognition

Financial liabilities are derecognized from the separate statements of financial position when either: the contractual obligations have been satisfied, cancelled or expired; or there has been a substantial change to the conditions of the existing financial liabilities. The difference between financial liabilities that have been expired or transferred to a third party, and the consideration paid (including non-cash assets transferred or liabilities assumed) are recognized through profit or loss.

(13) Derivative Instruments

At initial recognition, derivative instruments are measured at their fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting valuation gains or losses arising from changes in fair value of derivative instruments are recognized through profit or loss.

(14) Cash and Cash Equivalents

The Company classifies investment assets with maturities of three months or less from the acquisition date as cash and cash equivalents. Equity investments are excluded from cash equivalents, unless they are, in substance, cash equivalents, for example, in the case of preferred shares when they have a short maturity with a specified redemption date.

(15) Employee Benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Other long-term employee benefits

As for other long-term employee benefits that are not due to be settled within 12 months after the end of the period in which the employees rendered the related service, the future benefits acquired in return for the services provided in the current term and the past period are discounted as current value. Changes following remeasurements are recognized as current term's profit or loss that have incurred in the period.

(c) Retirement benefits: Defined contribution plans

The contribution payable to a defined contribution plan in exchange for services rendered by an employee to the Company during a period is recognized through profit or loss, except for cases where the contribution payable is included in the asset's cost. The contribution payable is recognized as a liability (accrued expense) after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

Defined benefit pension plans are all pension plans excluding defined contribution pension plans. Generally, the amount of retirement pension payable to employees at retirement are confirmed through factors such as age, number of years worked or salary level, etc.

The net defined liability (asset) recognized on the separate financial statement of financial position in relation to defined benefit plans is the amount of deficit (or amount of surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling) as determined by deducting the present value of the defined benefit obligations from the fair value of plan assets as of the end of the reporting period. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is presented in the currency that the salary will be paid and is calculated by discounting the expected future cash outflow by the interest rate of a corporate bond with a good credit rating with a maturity similar to the period when payment of the defined benefit obligation is due.

Changes in actuarial assumptions and actuarial gains or losses that arise from the difference between the actuarial assumptions and the actual results are recognized through other comprehensive income in the period incurred. Past service cost is recognized at the earlier of the following dates: when the plan amendment or curtailment occurs; and when the Company recognizes related restructuring costs or terminations benefits.

(e) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring.

(16) Refund Liabilities and Provisions

Refund liabilities and provisions are present obligations (legal obligation or constructive obligation) that exist as a result of past events. The Company recognizes refund liabilities and provisions when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount of refund liabilities and provisions recognized are the best estimates of the necessary expenditure required to fulfill the present obligations at the end of the reporting period, taking into account the unavoidable risks and uncertainties involved. Where the effect of the time value of money is material, refund liabilities and provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle refund liabilities or provisions are expected to be reimbursed by another party, the reimbursement shall be recognized only when it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Refund liabilities and provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the related refund liabilities and provisions are reversed.

(17) Paid-in Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to equity transactions are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its own equity instruments, the amount of the consideration paid is recognized as a contra-equity account and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profits or losses.

(18) Revenue Recognition

The Company's revenue categories consist of revenue from goods sold, services and other income.

(a) Sales of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company and the costs incurred or to be incurred with respect to the transaction can be measured reliably.

Since the Company's contract with customers to supply goods allows customers a right of return, the amount of consideration that the Company receives can be variable. Variable consideration is estimated by using the expected value method, which the Company expects to better predict the amount of consideration to which it is entitled. The Company recognizes revenue by including in the transaction price variable consideration only up to the amount where it is highly probable that a significant portion of the accumulated revenue already recognized will not be reversed.

Refund liabilities are recognized at the amount of consideration received (or receivable) for which the Company does not expect to be entitled. When customers exercise their right of return, the Company has a right to recover its products from customers. The Company recognizes this right as a refund asset and makes a corresponding adjustment to the cost of sales. The Company's right to recover its products are measured by deducting the cost of retrieving the goods from customers from the previous book value of the product.

(b) Rendering of services

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow into the Company, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(c) Sale of real estate

The Company sells residential real estate according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Company has the right to claim for enforceable payment with regard to work performed up to that point.

Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management has deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with Korean IFRS 1115.

The Company pays sales commission in relation to the sales contract of residential real estate. When the Company estimates that such incremental cost would be recovered, the incremental cost is capitalized and amortized over the period in which the residential real estate is transferred to the customer.

(d) Lease of real estate

The profit from lease of investment property and others is recognized on a straight-line basis over the period of lease.

(19) Finance Income and Finance Cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method. Dividend income is recognized through profit or loss on the date the Company's right to receive the dividend as a shareholder is established. Finance cost includes interest expense on borrowings and lease liabilities, amortization on trade and other payables etc. Interest expense, as it accrues, is recognized through profit or loss using the effective interest method.

(20) Income Tax Expense

Income tax expense consists of current tax and deferred tax. Income tax is usually recognized through profit or loss. Exceptions are income tax related to items which are recognized directly in other comprehensive income or in equity. In such cases, income tax is also recognized directly in other comprehensive income or in equity.

Income tax expense is measured based on tax laws that have either been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, the Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

(21) Functional and Presentation Currency

The Company's separate financial statements are prepared in Korean won, the currency of the main economic environment in which the Company operates (the "functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the separate statements of comprehensive income within 'other income' or 'other expenses'.

Foreign exchange gains or losses arising from non-monetary financial assets and liabilities are considered a part of changes in fair value through profit or loss. Therefore, foreign exchange gains or losses arising from equity instruments measured at fair value through profit or loss are recognized through profit or loss. Foreign exchange gains or losses arising from equity instruments measured at fair value through other comprehensive income are recognized through other comprehensive income.

(22) Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(23) Lease

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expenses over the lease term on the same basis as lease income. The respective leased assets are included in the separate statement of financial position based on their nature.

The Company leases various offices, accommodation for employees and vehicles etc. The terms of lease are negotiated individually and include various contractual conditions. There are no restrictions from lease contracts other than that the leased assets cannot be used as collateral for borrowings.

The Company determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Company applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company (the lessee) under residual value guarantees
- the exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

For variable lease payment terms that are linked to indexes or rates, the Company is exposed to the potential future risks of the variable lease payments not included in the lease liabilities whilst the indexes or rates are still valid. In such cases, the Company re-evaluates the lease liabilities whilst the changes in lease payments (due to indexes or rates) are still valid and make adjustments to the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- estimated restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis through profit or loss.

(24) Emission Rights

Pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission that became effective in 2015, the Company has an emission liability, which is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gases. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation can be reliably estimated.

(25) Going Concern

At the time of approving the financial statements, management has reasonable expectations that the Company has sufficient resources to continue as a going concern for the foreseeable future. Therefore, management has prepared the financial statements under the assumption that the Company will continue as a going concern.

(26) Approval of Financial Statements

The separate financial statements of the Company have been approved by the Board of Directors on March 10, 2022, and may be modified and approved at the Annual General Meeting of Shareholders.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions 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. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information on significant judgement and assumptions of certain items are included in the relevant notes.

(1) Impairment of investments in subsidiaries

The Company determines whether to recognize an impairment loss on investments in subsidiaries in accordance with Korean IFRS 1036 *Impairment of Assets*.

When there is an indication of impairment of assets, the Company performs an impairment assessment by comparing the carrying amount of investments in subsidiaries with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is determined based on the estimation of the value in use or fair value less costs to sell (Note 11).

(2) Total construction revenue and total construction cost

(a) Uncertainty of total contract revenue estimates

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Company includes it in contract revenue (Note 25).

(b) *Estimated total construction cost*

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period, etc. (Note 25).

(3) COVID-19

Significant accounting estimates and assumptions applied in the preparation of the separate financial statements can be adjusted depending on changes in the uncertainty from Coronavirus disease 2019 ("COVID-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 Korean IFRS 1108.

(in millions of Korean won)

			2021	2020
Revenue recognized at a point in time:				
Sales of tobacco/merchandise and service revenue	Korea	Wholesale, retail	₩ 1,961,259	₩ 1,878,299
		Direct sales	3,272	3,581
	Export	Wholesale, retail	787,478	808,796
Sales of semifinished tobacco products/raw materials and others	Korea	Direct sales	1,231	3,167
	Export	Direct sales	90,013	86,963
Subtotal			<u>2,843,253</u>	<u>2,780,806</u>
Revenue recognized over time:				
Sales and rental of real estate	Korea	Sales	569,691	582,236
	Korea	Rental	77,512	72,342
Subtotal			<u>647,203</u>	<u>654,578</u>
Total			<u>₩ 3,490,456</u>	<u>₩ 3,435,384</u>

5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Cash on hand	₩	4	₩ 128
Demand deposits		181,876	225,699
Money market trust		408,723	850,287
Total	₩	590,603	₩ 1,076,114

(b) Details of other financial assets as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
	Current	Non-current	Current	Non-current
Time deposits	₩ 292,200	₩ 8,707	₩ 310,597	₩ 8,540
Certificate of Deposit	40,000	-	20,000	-
Total	₩ 332,200	₩ 8,707	₩ 330,597	₩ 8,540

6. Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
	Current	Non-current	Current	Non-current
Money Market Trust	₩ 965,362	₩ 17,442	₩ 914,344	₩ 18,297
Beneficiary certificate	22	281,039	80	230,308
Total	₩ 965,384	₩ 298,481	₩ 914,424	₩ 248,605

7. Trade and Other Receivables

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

(in millions of Korean won)

	2021		2020	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 701,749	₩ 37,470	₩ 974,705	₩ 18,253
Loans	23,629	51,545	15,042	61,465
Other receivables	30,573	13,981	31,112	13,213
Guarantee deposits	29,316	20,158	24,212	26,103
Accrued income	3,536	4,517	4,751	2,140
Total	₩ 788,803	₩ 127,671	₩ 1,049,822	₩ 121,174

(in millions of Korean won)

	2021		2020	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 912,089	₩ 215,901	₩ 1,118,926	₩ 196,018
Allowances:				
Trade receivables	(121,786)	(57,153)	(68,240)	(43,569)
Other receivables	(1,500)	(31,077)	(864)	(31,275)
Total allowances	(123,286)	(88,230)	(69,104)	(74,844)
Net trade and other receivables	₩ 788,803	₩ 127,671	₩ 1,049,822	₩ 121,174

(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 December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 912,089	₩ 215,901	₩ 1,118,926	₩ 196,018
Allowances:				
Trade receivables	(121,786)	(57,153)	(68,240)	(43,569)
Other receivables	(1,500)	(31,077)	(864)	(31,275)
Total allowances	(123,286)	(88,230)	(69,104)	(74,844)
Net trade and other receivables	₩ 788,803	₩ 127,671	₩ 1,049,822	₩ 121,174

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for the years ended December 31, 2021 and 2020, are as follows:

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(in millions of Korean won)

	2021		2020	
Beginning balance	₩	143,948	₩	166,511
Impairment loss (reversal)		67,580		(19,751)
Write off, etc.		(12)		(2,812)
Ending balance	₩	211,516	₩	143,948

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

8. Inventories

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

(in millions of Korean won)

	2021			2020		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 15,559	₩ (1,100)	₩ 14,459	₩ 19,904	₩ (5,209)	₩ 14,695
Finished goods	98,723	(12,271)	86,452	113,619	(5,836)	107,783
Half-finished goods	18,821	(1,876)	16,945	1,317	-	1,317
Work in progress	3,048	-	3,048	13,252	-	13,252
Raw materials	707,514	(6,760)	700,754	736,865	(264)	736,601
Supplies	47,772	-	47,772	40,038	-	40,038
By-products	6,531	-	6,531	7,142	-	7,142
Buildings under construction	5,926	-	5,926	13,568	-	13,568
Completed buildings	3,126	-	3,126	1,490	-	1,490
Sites for construction of real estate	3,673	-	3,673	7,420	-	7,420
Goods in transit	36,216	-	36,216	50,036	-	50,036
Total	₩ 946,909	₩ (22,007)	₩ 924,902	₩ 1,004,651	₩ (11,309)	₩ 993,342

(b) The amount of loss on valuation and obsolescence of inventories recognized for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Cost of sales:		
Loss on valuation of inventories (reversal)	₩ 10,698	₩ (7,069)
Loss on obsolescence of inventories	7,727	10,155
Total	₩ 18,425	₩ 3,086

9. Financial Assets measured at Fair Value through Other Comprehensive Income

(a) Details of financial assets at fair value through other comprehensive income as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Listed:			
Oscotech Inc.	₩	19,325	₩ 34,637
Shinhan Financial Group Co., Ltd.		147,507	128,468
Ocuphire Pharma, Inc (Previously, Rexahn Pharmaceuticals, Inc.)		-	94
U&I Corporation		4,759	4,319
Subtotal		171,591	167,518
Unlisted		31,581	46,876
Total	₩	203,172	₩ 214,394

When assessing the fair value of financial assets measured at fair value through other comprehensive income, the Company used market prices traded in the active trading market for listed equity instruments and measured unlisted equity instruments using the discounted cash flow model, etc.

At the disposal of the above equity instruments, the related accumulated other comprehensive income or loss is reclassified to retained earnings and is not reclassified to profit or loss.

(b) Changes in financial assets at fair value through other comprehensive income or loss for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 214,394	₩ 240,456
Acquisition	3,000	-
Changes in fair value	16,773	(22,873)
Disposal and reclassification	(30,995)	(3,189)
Ending balance	₩ 203,172	₩ 214,394

10. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

		Location	Principal operation	2021		2020	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.88	₩ 1,830	16.75	₩ 1,830
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ^{1,2}	Korea	Real estate investment, development and rental business	18.95	-	18.95	5,685
	KORAMCO Banpo Project Financing Vehicle Co., Ltd. ^{1,7}	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd. ¹	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KORAMCO Amsa Project Financing Vehicle Co., Ltd. ¹	Korea	Real estate investment, development and rental business	17.84	1,159	17.84	1,159
	KOCREF Consigned-management REIT No.36 ³	Korea	Real estate investment, development and rental business	21.01	15,000	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	17,764	-	-
	Kiwoom Milestone Private REIT No.16 ⁴	Korea	Real estate investment, development and rental business	45.50	15,000	-	-
	Cheongna Medipolis PFV CO.,Ltd. ⁵	Korea	Real estate development and sales	56.74	17,022	-	-
	INNODIS CO.,Ltd. ¹	Korea	Game, advertizing agency	19.60	55	19.60	55
	SJ BIO MED CO.,Ltd. ¹	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co.,Ltd.	Korea	New medicine development	23.13	-	23.15	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	Renting of real estate	51.35	18,500	51.35	18,500
	Starfield Suwon, Inc.	Korea	Real estate development and rental business	50.00	144,500	50.00	99,500
Total					₩ 237,986		₩ 133,885

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

² The Company has classified its holdings as assets held for sale as the Company has entered into a sales agreement.

³ Due to a capital increase with consideration through dilutive secondary offerings of KOCREF Consigned-management REIT No.36 during the year ended December 31, 2021, the Company has acquired its significant influence in the invested company. The Company has reclassified its holdings as an investment in associates.

⁴ The Company has reclassified its holdings as an investment in associates as the Company has reassessed that it has significant influence over the invested company.

⁵ It was classified as an associate since decisions about the significant financial and operating policies of the investee could not be made without consents from 3/4 of the directors in accordance with the investors' agreement.

⁶ It was classified as a joint venture since decisions about the significant financial and operating policies of the investee could not be made without the unanimous consent of the parties that control the arrangement collectively.

⁷ As of December 31, 2021, the Company's holdings in KORAMCO Banpo Project Financing Vehicle Co., Ltd. is pledged as collateral for a PF loan.

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 recognized a ₩ 2,208 million gain on disposal of investment in joint ventures.

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). The Company has entered into a sales agreement on KORAMCO Ocheon Project Financing Vehicle Co., Ltd. and classified the equity securities as assets held for sale (Note 15).

The Company has acquired equity securities of the following companies during the year ended December 31, 2021: AndaStation Professional Investment Private REIT No.1 (18 billion shares for ₩ 17,764 million) and Cheongna Medipolis PFV CO.,Ltd. (3,404,400 shares for ₩ 17,022 million), associates, and Starfield Suwon, Inc. (900,000 shares for ₩ 45,000 million (2020: 1,750,000 shares for ₩ 87,500 million), a joint venture.

11. Investments in subsidiaries

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

(in millions of Korean won)

	Location	Principal operation	2021		2020	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Korea Ginseng Corporation	Korea	Manufacturing and selling ginseng	100.00	₩ 762,130	100.00	₩ 762,130
Yungjin Pharm. Co., Ltd.	Korea	Manufacturing and selling pharmaceutical	52.45	73,299	52.45	73,299
Tae-A 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	-	100.00	4,913
Cosmococ Co., Ltd.	Korea	Manufacturing and selling cosmetics	98.56	22,759	98.56	22,759
Renzoluc Pte., Ltd. ¹	Singapore	Holding Company	100.00	163,104	100.00	148,834
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,162	99.99	1,240
SangSang Stay, Inc.	Korea	Hotel	100.00	4,819	100.00	12,040
KT&G Global Rus L.L.C.	Russia	Selling tobaccos	100.00	936	100.00	936
Gwacheon SangSang PFV. INC	Korea	Real estate development and sales business	51.00	3,570	51.00	3,570
KT&G Taiwan Corporation	Taiwan	Selling tobaccos	100.00	8,081	-	-
Mastern No. 144 PFV CO.,Ltd.	Korea	Real estate development and sales business	92.50	37,000	-	-
				₩ 1,201,396		₩ 1,154,257

¹ The Company has acquired additional 6,978,948 convertible preference shares (₩ 25,291 million) of Renzoluc Pte., Ltd. The percentage of ownership is 100% (2020: 88.60%) including preferred shares as of December 31, 2021.

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

The Company has acquired 19,341,920 shares (₩ 8,081 million) of KT&G Taiwan Corporation and 7,400,000 shares (₩ 37,000 million) of Mastern No. 144 PFV CO.,Ltd. during the year ended December 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

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indications 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 years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	2021	2020	Method for evaluating recoverable amount
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	₩ -	₩ 1,414	Fair value less costs to sell
KT&G USA Corporation	4,913	-	Fair value less costs to sell
SangSang Stay, Inc.	7,221	11,684	Fair value less costs to sell
Renzoluc Pte., Ltd.	11,021	-	Value of use
PT KT&G Indonesia	78	-	Value of use
KT&G Rus L.L.C.	-	10,723	Value of use
KT&G Global Rus L.L.C.	-	146	Value of use
Total	₩ 23,233	₩ 23,967	

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.

In relation to investments in subsidiaries which belong to the CGUs of the Indonesian tobacco business, the recoverable amount was measured as value in use. Future cash flows to measure value in use were estimated for the next five years based on the Company's past operating performance and future business plans, and subsequent cash flows were estimated by applying a 1% permanent growth rate.

The discount rate for measuring value in use is the weighted average cost of capital adjusted to reflect the risks specific to the asset. The discount rates used for measuring value in use for each subsidiary as of December 31, 2021 and 2020, respectively, are as follows:

<i>(in percent)</i>	2021	2020
Renzoluc Pte., Ltd.	14.80	12.90
PT KT&G Indonesia		
KT&G Rus L.L.C.	-	14.40
KT&G Global Rus L.L.C.		

The most variable assumptions used for the calculation of value in use for the CGU of the Indonesian tobacco business are the discount rate and permanent growth rate, and the effects of changes to these variables are as follows. As a result of sensitivity analysis, the Company's management believes that the risk of impairment loss being recognized is low.

(in millions of Korean won)

		<u>1% increase</u>	<u>1% decrease</u>
Discount rate			
Effect on value in use	₩	(14,286)	₩ 16,923
Impairment loss to be recognized		(14,286)	11,099
Permanent growth rate			
Effect on value in use		6,601	(5,709)
Impairment loss to be recognized		6,601	(5,709)

In the case of the investments in subsidiaries which belong to the CGUs of the Indonesian tobacco business, there is uncertainty about the feasibility of estimating future cash flows and business plans due to the increase in the tobacco consumption tax predicted by the Indonesian government, the competitive structure of the local domestic market that is expected to intensify generated by the tax increase, etc.

12. Property, Plant and Equipment

(a) Composition of the carrying amounts of property, plant and equipment as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	<u>2021</u>			<u>2020</u>		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 380,873	₩ -	₩ 380,873	₩ 364,085	₩ -	₩ 364,085
Buildings	673,410	(386,765)	286,645	688,973	(377,802)	311,171
Structures	37,541	(29,015)	8,526	43,912	(34,646)	9,266
Machinery	1,231,210	(873,495)	357,715	1,156,248	(832,810)	323,438
Vehicles	1,366	(1,222)	144	1,228	(1,108)	120
Tools	39,773	(30,084)	9,689	37,744	(29,502)	8,242
Equipment	114,963	(87,263)	27,700	118,934	(84,909)	34,025
Others	4,512	(351)	4,161	5,686	(1,131)	4,555
Construction in progress	53,504	-	53,504	84,728	-	84,728
Total	₩ 2,537,152	₩ (1,408,195)	₩ 1,128,957	₩ 2,501,538	₩ (1,361,908)	₩ 1,139,630

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(b) Changes in property, plant and equipment for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ¹	Ending balance
Land	₩ 364,085	₩ -	₩ (125)	₩ -	₩ 16,913	₩ 380,873
Buildings	311,171	4,571	(144)	(21,354)	(7,599)	286,645
Structures	9,266	563	(81)	(1,591)	369	8,526
Machinery	323,438	9,892	(1,382)	(57,450)	83,217	357,715
Vehicles	120	104	-	(83)	3	144
Tools	8,242	4,734	(243)	(3,644)	600	9,689
Equipment	34,025	6,715	(313)	(13,983)	1,256	27,700
Others	4,555	-	(258)	(136)	-	4,161
Construction in progress	84,728	99,673	-	-	(130,897)	53,504
Total	₩ 1,139,630	₩ 126,252	₩ (2,546)	₩ (98,241)	₩ (36,138)	₩ 1,128,957

¹ Consists of ₩ 36,878 million which was reclassified to investment property, ₩ 754 million which was reclassified to intangible assets, and ₩ 14 million which was reclassified to inventories (Notes 13 and 14).

(in millions of Korean won)

(in millions of Korean won)		2020												
		Beginning balance		Acquisition		Disposal		Depreciation		Impairment		Reclassification, etc. ¹		Ending balance
Land	₩	388,943	₩	432	₩	(236)	₩	-	₩	-	₩	(25,054)	₩	364,085
Buildings		314,267		16,120		(1,206)		(23,155)		-		5,145		311,171
Structures		10,009		1,138		(157)		(1,640)		-		(84)		9,266
Machinery		255,436		40,423		(4,482)		(48,512)		-		80,573		323,438
Vehicles		215		39		-		(134)		-		-		120
Tools		7,056		4,435		(152)		(3,132)		-		35		8,242
Equipment		22,461		13,146		(307)		(15,324)		-		14,049		34,025
Others		4,180		610		-		(628)		-		393		4,555
Construction in progress		113,758		83,689		(1)		-		(185)		(112,533)		84,728
Total	₩	1,116,325	₩	160,032	₩	(6,541)	₩	(92,525)	₩	(185)	₩	(37,476)	₩	1,139,630

¹ Consists of ₩ 43,300 million which was reclassified to investment property, ₩ 3,752 million which was reclassified to assets held for sale, ₩ 4,465 million which was reclassified to inventories, and ₩ 14,041 million which was reclassified from intangible assets (Notes 13, 14 and 15).

13. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			2020		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Industrial property rights	₩ 9,677	₩ (567)	₩ 9,110	₩ 4,732	₩ (500)	₩ 4,232
Facility usage rights	30,521	-	30,521	28,425	-	28,425
Intangible assets under development	42,808	-	42,808	18,995	-	18,995
Other intangible assets	29,319	(14,395)	14,924	25,546	(10,875)	14,671
Total	₩ 112,325	₩ (14,962)	₩ 97,363	₩ 77,698	₩ (11,375)	₩ 66,323

(b) Changes in intangible assets for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹	Ending balance
Industrial property rights	₩ 4,232	₩ 1,665	₩ (31)	₩ (417)	₩ (11)	₩ 3,672	₩ 9,110
Facility usage rights	28,425	1,290	-	-	-	806	30,521
Intangible assets under development	18,995	33,760	(2)	-	(305)	(9,640)	42,808
Other intangible assets	14,671	1,559	(85)	(6,435)	-	5,214	14,924
Total	₩ 66,323	₩ 38,274	₩ (118)	₩ (6,852)	₩ (316)	₩ 52	₩ 97,363

¹ Consists of ₩ 754 million which was reclassified to property, plant and equipment and ₩ 806 million which was reclassified from prepaid expenses (Note 12).

(in millions of Korean won)

	2020						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹	Ending balance
Industrial property rights	₩ 2,364	₩ 281	₩ -	₩ (105)	₩ (51)	₩ 1,743	₩ 4,232
Facility usage rights	25,669	3,778	(1,022)	-	-	-	28,425
Intangible assets under development	20,932	23,519	-	-	(276)	(25,180)	18,995
Other intangible assets	9,896	1,118	(98)	(5,641)	-	9,396	14,671
Total	₩ 58,861	₩ 28,696	₩ (1,120)	₩ (5,746)	₩ (327)	₩ (14,041)	₩ 66,323

¹ Consists of ₩ 14,041 million which was reclassified to property, plant and equipment (Note 12).

(c) Research and development expenditures recognized as expenses for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
Cost of sales	₩	561	₩	512	
Selling, general and administrative expenses		38,645		25,804	
Total	₩	39,206	₩	26,316	

(d) Individually significant intangible assets

Details of individually significant intangible assets other than goodwill as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
Intangible assets under development	SAP system development	₩	23,765	₩	2,849

14. Investment Property

(a) Details of investment properties as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021			2020		
		Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩	618,528	₩ -	₩ 618,528	₩ 600,922	₩ -	₩ 600,922
Buildings		661,750	(195,873)	465,877	646,679	(166,781)	479,898
Construction in progress		44,065	-	44,065	20,369	-	20,369
Total	₩	1,324,343	₩ (195,873)	₩ 1,128,470	₩ 1,267,970	₩ (166,781)	₩ 1,101,189

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(b) Changes in investment property for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ¹	Ending balance
Land	₩ 600,922	₩ -	₩ (2)	₩ -	₩ 17,608	₩ 618,528
Buildings	479,898	546	(537)	(26,084)	12,054	465,877
Construction in progress	20,369	23,696	-	-	-	44,065
Total	₩ 1,101,189	₩ 24,242	₩ (539)	₩ (26,084)	₩ 29,662	₩ 1,128,470

¹ Consists of ₩ 36,878 million reclassified from property, plant and equipment and ₩ 7,216 million reclassified to assets held for sale (Notes 12 and 15).

(in millions of Korean won)

	2020					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification, etc. ¹	Ending balance
Land	₩ 578,606	₩ 4	₩ (3,638)	₩ -	₩ 25,950	₩ 600,922
Buildings	338,662	65,736	(728)	(23,008)	99,236	479,898
Construction in progress	81,837	20,418	-	-	(81,886)	20,369
Total	₩ 999,105	₩ 86,158	₩ (4,366)	₩ (23,008)	₩ 43,300	₩ 1,101,189

¹ Consists of ₩ 43,300 million reclassified to property, plant and equipment (Note 12).

(c) Details of profit or loss recognized related to the investment properties for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Rental income	₩ 77,512	₩ 72,342
Operating expenses	(26,084)	(23,008)
Total	₩ 51,428	₩ 49,334

(d) The fair value and carrying amount of investment properties as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩ 2,022,942	₩ 565,965	₩ 1,815,693	₩ 548,359
Buildings	699,091	465,877	687,194	479,898
Total	₩ 2,722,033	₩ 1,031,842	₩ 2,502,887	₩ 1,028,257

The fair value of the major investment property is determined by the value measured by an independent valuation agency using the return-value method, etc., and is classified as Level 3 based on the inputs used in the valuation technique in the fair value hierarchy.

Details of investment properties where book values are deemed to be fair values since their fair values cannot be measured reliably are as follows:

(in millions of Korean won)

	Type	Carrying amount		Reason why fair value cannot be measured reliably
		2021	2020	
Ssangmun-dong new development site	Land	₩ 1,495	₩ 1,495	Construction in progress
	Construction in progress	26,183	11,391	
Sangbong-dong new development site	Land	51,067	51,068	
	Construction in progress	17,883	8,978	
		₩ 96,628	₩ 72,932	

(e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2021, variable lease payment that is based on an index or a rate was ₩ 2,333 million. Even though the Company is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of future minimum lease payments that the Company expects to receive from operating lease contracts for the investment properties described above as of December 31, 2021, are as follows:

(in millions of Korean won)

	2021			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩ 43,140	₩ 44,441	₩ 29,731	₩ 117,312

15. Assets and Liabilities Held for Sale

Changes in assets held for sale for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 2,000	₩ 4,680
Acquisition	-	3,283
Impairment	-	(424)
Reclassification ¹	12,901	3,770
Disposal	-	(9,309)
Ending balance	₩ 14,901	₩ 2,000

¹ Consists of ₩ 7,216 million reclassified from investment property and ₩ 5,685 million reclassified from investments in associates (2020: ₩ 3,752 million reclassified from property, plant and equipment and ₩ 18 million reclassified from inventories) (Notes 10, 12 and 14).

For the year ended December 31, 2021, the Company has reclassified ₩ 7,216 million of land in Gapyung Training Institute and ₩ 5,685 million of KORAMCO Ocheon Project Financing Vehicle Co., Ltd. as assets held for sale.

For the year ended December 31, 2020, the Company has reclassified ₩ 2,424 million of land and buildings in Gapyung Culture and Arts School as assets held for sale and recognized ₩ 424 million as impairment loss from assets held for sale.

For the year ended December 31, 2020, in accordance with its contract with the joint venture, Starfield Suwon, Inc., the Company has acquired an additional ₩ 3,283 of land and then disposed of ₩ 7,530 million of land. The Company has recognized gains from disposal of assets held for sale of ₩ 153,188 million.

16. Right-of-use Assets

(a) Details of carrying amount of right-of-use asset as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			2020		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Buildings	₩ 21,599	₩ (7,242)	₩ 14,357	₩ 27,336	₩ (7,641)	₩ 19,695
Machinery	-	-	-	270	(205)	65
Vehicles	16,417	(8,130)	8,287	16,259	(6,972)	9,287
Total	₩ 38,016	₩ (15,372)	₩ 22,644	₩ 43,865	₩ (14,818)	₩ 29,047

(b) Changes in right-of-use assets for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

		2021				
		Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
		₩ 19,695	₩ 1,513	₩ (1,373)	₩ (5,478)	₩ 14,357
Buildings	₩					
Machinery		65	-	-	(65)	-
Vehicles		9,287	3,519	208	(4,727)	8,287
Total	₩	29,047	5,032	(1,165)	(10,270)	22,644

(in millions of Korean won)

		2020				
		Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
		₩ 8,344	₩ 15,980	₩ (18)	₩ (4,611)	₩ 19,695
Buildings	₩					
Machinery		-	270	-	(205)	65
Vehicles		10,201	4,465	(569)	(4,810)	9,287
Total	₩	18,545	20,715	(587)	(9,626)	29,047

(c) The amount recognized on the separate statements of comprehensive income related to lease for the years ended December 31, 2021 and 2020, is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Depreciation expense	₩	10,270	₩	9,626
Interest expense		691		666
Short-term lease expense		193		270
Lease payment for low-value assets		476		514
Variable lease expense		1,088		1,155
Loss on lease contract adjustments		294		(70)
Total	₩	13,012	₩	12,161

For the year ended December 31, 2021, total cash outflows related to lease is ₩ 11,964 million (2020: ₩ 10,613 million).

17. Borrowings

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

<i>(in millions of Korean won)</i>		2021		2020	
Nonghyup Bank	₩	437	₩	633	
Hana Card		152		184	
Total	₩	589	₩	817	

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.

18. Trade and Other Payables

Details of trade and other payables as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	32,090	₩ 16,891	₩ 25,739	₩ 19,365
Trade payables		16,217	-	34,150	-
Withholdings		4,617	-	5,017	-
Value-added deposit		176,633	-	162,464	-
Accrued expenses		163,590	28,286	125,371	19,301
Other payables		383,209	703	458,436	2,864
Total	₩	776,356	₩ 45,880	₩ 811,177	₩ 41,530

19. Employee Benefits

(a) Profit or loss recognized related to employee benefits for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Defined benefit plans:		
Current service cost	₩ 34,013	₩ 31,294
Net interest on net defined benefit liabilities (assets)	840	564
Subtotal	<u>34,853</u>	<u>31,858</u>
Defined contribution plan:		
Contributions recognized as expense	5,086	5,517
Other long-term employee benefits:		
Current service cost, etc.	11,502	2,694
Termination benefits:		
Voluntary retirements, etc.	1,253	2,325
Total	<u>₩ 52,694</u>	<u>₩ 42,394</u>

(b) Changed in net defined benefit liabilities (assets) for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 38,161	₩ 22,099
Current service cost	34,013	31,294
Net interest of net defined benefit liabilities (assets)	840	564
Remeasurment element of net defined benefit liabilities (assets) (before tax)	(34,504)	20,811
Payment amount	(3,446)	(607)
Payment of plan assets	(46,200)	(36,000)
Ending balance	<u>₩ (11,136)</u>	<u>₩ 38,161</u>
Consolidated statements of financial positions:		
Present value of defined benefit obligations	₩ 388,559	₩ 396,703
Fair value of plan assets	(399,695)	(358,542)
Total	<u>₩ (11,136)</u>	<u>₩ 38,161</u>

(c) Changes in the present value of defined benefit obligation for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 396,703	₩ 352,428
Current service cost	34,013	31,294
Interest expenses	8,522	6,784
Remeasurement element (before tax)	(35,516)	21,227
Payment amount	(15,163)	(15,030)
Ending balance	<u>₩ 388,559</u>	<u>₩ 396,703</u>

(d) Changes in fair value of plan assets for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 358,542	₩ 330,329
Interest income	7,682	6,220
Remeasurement element (before tax)	(1,012)	416
Payment amount	(11,717)	(14,423)
Payment of plan assets	46,200	36,000
Ending balance	<u>₩ 399,695</u>	<u>₩ 358,542</u>

The actual interest income from plan assets for the years ended December 31, 2021 and 2020, are ₩ 6,670 million and ₩ 6,636 million, respectively.

(e) Changes in the present value of other long-term employee benefits for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Beginning balance	₩ 20,807	₩ 19,128
Current service cost	2,814	2,334
Past service cost	8,821	-
Interest cost	475	355
Remeasurement element (before tax)	(608)	5
Payment amount	(4,024)	(1,015)
Ending balance	<u>₩ 28,285</u>	<u>₩ 20,807</u>

(f) Remeasurements recognized in other comprehensive income for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ 2,362	₩ -
Changes in financial assumptions	30,379	(11,538)
Experience adjustments	2,775	(9,689)
	<u>₩ 35,516</u>	<u>₩ (21,227)</u>
Revenue (loss) from plan assets, excluding amounts included in net interest	(1,012)	416
Remeasurement element of net defined liabilities (assets) (before tax)	34,504	(20,811)
Tax effect	(9,488)	5,723
Remeasurement element of net defined liabilities (assets) (after tax)	25,016	(15,088)

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Regular deposits and cash equivalents	₩ 65,433	₩ 74,230
Principal and interest guarantee financial assets, etc.	334,262	284,312
Total	<u>₩ 399,695</u>	<u>₩ 358,542</u>

(h) The major assumptions used for actuarial evaluation as of December 31, 2021 and 2020, are as follows:

<i>(in percentage)</i>	2021	2020
Discount rate	2.59	2.04
Expected wage increase rate	3.89	4.27

To calculate the present value of the defined benefit obligation, the Company decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2021.

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	Increase by 1%	Decrease by 1%
Changes in discount rate	(28,369)	32,684
Changes in expected wage increase rate	32,577	(28,807)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2021.

(j) Effects of defined benefit plan on future cash flow

The Company maintains its policy of reviewing the level of contribution in the pension fund at the end of each fiscal year and making up any losses that may occur in the fund.

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2022 is ₩ 20,358 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2021 and 2020, are 8.02 years and 9.59 years, respectively.

The expected maturity analysis of undiscounted pension benefits as of December 31, 2021, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year		Between 1-2 years		Between 2-5 years		Over 5 years		Total
December 31, 2021	₩	30,535	₩	37,670	₩	127,171	₩	848,407	₩ 1,043,783
December 31, 2020		18,246		22,035		94,813		930,314	1,065,408

20. Refund Liabilities and Provisions

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

(in millions of Korean won)

	2021		2020	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 4,915	₩ -	₩ 4,464	₩ -
Refund liabilities	4,588	938	1,979	305
Provision for site restoration	111	30	8,682	125
Provision for financial guarantee	21	250	-	622
Provision for greenhouse gases	269	-	178	-
Total	₩ 9,904	₩ 1,218	₩ 15,303	₩ 1,052

(b) Changes in refund liabilities and provisions for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 2,500	₩ (2,049)	₩ 4,915
Refund liabilities	2,284	6,075	(2,833)	5,526
Provision for site restoration	8,807	67	(8,733)	141
Provision for financial guarantee	622	-	(351)	271
Provision for greenhouse gases	178	354	(263)	269
Total	₩ 16,355	₩ 8,996	₩ (14,229)	₩ 11,122

(in millions of Korean won)

	2020			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,694	₩ 5,781	₩ (5,011)	₩ 4,464
Refund liabilities	5,023	-	(2,739)	2,284
Provision for site restoration	6,695	8,391	(6,279)	8,807
Provision for financial guarantee	492	130	-	622
Provision for greenhouse gases	-	276	(98)	178
Total	₩ 15,904	₩ 14,578	₩ (14,127)	₩ 16,355

(c) For returnable sales, the Company sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2021 amount to ₩ 790 million.

(d) The Company sets up provision for product warranties by estimating the expected warranty amount at the time of sales and sets up the rights to be reimbursed by the manufacturer in the future due to the manufacturer's fault as warranty reimbursement assets. The amount of warranty reimbursement assets as of December 31, 2021 is ₩ 759 million (2020: ₩ 4 million).

(e) The Company's provision for site restoration is established by estimating the expected future recovery cost of the leased assets. The Company includes the recovery cost of leased assets to the acquisition cost of right-of-use assets, and such expenditure is expected to occur at the end of the contract term for the leased asset.

(f) The Group's provision for financial guarantee is recognized by estimating the amount of joint guarantees for midpayment loan provided to the buyer related to the off-plan sales construction of Suwon hwaseo.

(g) In relation to greenhouse gas emissions, the Company recognizes provision for greenhouse gases by estimating the book value of the greenhouse gas emission rights that are exercised during the year as well as future expenses expected to be burdened by the Company as a result of emissions exceeding the greenhouse gas emission rights for that year.

21. Share Capital and Other Capital Surplus

There have been no changes to share capital and other capital surplus during the years ended December 31, 2021 and 2020. Details of share capital and other capital surplus as of December 31, 2021 and 2020, are as follows:

<i>(in shares and millions of Korean won)</i>	2021	2020
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share <i>(in won)</i>	₩ 5,000	₩ 5,000
Issued	137,292,497 shares	137,292,497 shares
Share capital	954,959	954,959
Other capital surplus	3,582	3,582

As 53,699,400 shares of the Company have been written off in profit there is a difference of ₩ 268,497 million between the total face value of the equity and the issued shares.

22. Treasury Shares and Gain on disposal of Treasury Shares

(a) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2021 and 2020, are as follows:

<i>(in shares and millions of Korean won)</i>	2021	2020
Number of treasury shares	17,312,574 shares	13,212,574 shares
Treasury shares	₩ (879,982)	₩ (531,618)
Gain on disposal of treasury shares	528,894	528,894

(b) Changes in the number of treasury shares for the years ended December 31, 2021 and 2020, are as follows:

<i>(in shares)</i>	2021	2020
Beginning balance	13,212,574	10,712,574
Acquisition of treasury shares	4,100,000	2,500,000
Ending balance	17,312,574	13,212,574

The Company has acquired 4,100,000 treasury shares (2020: 2,500,000 treasury shares) through a transaction on exchange during the year ended December 31, 2021.

23. Reserves

(a) Details of reserves as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Profit reserve	₩ 602,937	₩ 602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,263,383	4,798,745
Loss on valuation of financial assets at fair value through other comprehensive income	(62,507)	(75,511)
Total	₩ 6,515,545	₩ 6,037,903

(1) Profit reserve

The commercial law stipulates that the Company shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of the December 31, 2021 and 2020, the profit reserve set aside in excess of 50% of the Company's share capital is ₩ 125,458 million.

(2) Reserve for business rationalization

Until 2002, the Company had put the tax deduction amount under the Tax Specialization Act as the corporate rationalized reserve, which could only be used to preserve and transfer capital losses. However, the Act on Restriction of Special Taxes was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

(3) Reserve for business expansion and other reserve

In addition to the above-mentioned reserves, the Company can reserve for business expansion and unconditionally with no particular purpose. These reserves can be used for other purposes according to the resolutions of the shareholders' meeting.

(b) Details of gain and loss on valuation of fair value through other comprehensive income or loss as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Loss on valuation of financial assets at fair value through other comprehensive income or loss before tax	₩ (86,218)	₩ (104,154)
Tax effect	<u>23,711</u>	<u>28,643</u>
Loss on valuation of financial assets at fair value through other comprehensive income or loss after tax	<u>₩ (62,507)</u>	<u>₩ (75,511)</u>

24. Retained Earnings

(a) Changes in retained earnings for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	1,060,221	₩	888,252
Dividends		(595,584)		(556,952)
Transfer to other reserve		(464,637)		(331,300)
Profit for the year		852,944		1,075,309
Transfer of loss on disposal of financial assets at fair value through other comprehensive income or loss to retained earnings		(843)		-
Remeasurements of net defined benefit liabilities (after tax)		25,016		(15,088)
Ending balance	₩	877,117	₩	1,060,221

The retained earnings for the year ended December 31, 2021, is expected to be appropriated at the shareholders' meeting on March 29, 2022. The appropriation date for the year ended December 31, 2020, was March 19, 2021.

(b) The appropriation of retained earnings for the years ended December 31, 2021 and 2020, is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Unappropriated retained earnings carried over from prior year	₩	-	₩	-
Profit for the year		852,944		1,075,309
Transfer of loss on disposal of financial assets at fair value through other comprehensive income or loss to retained earnings		(843)		-
Remeasurements of net defined benefit liabilities (after tax)		25,016		(15,088)
Retained earnings available for appropriation		877,117		1,060,221
Appropriation of retained earnings				
Dividends (Cash dividends (%)):		(575,904)		(595,584)
Ordinary share:				
2020: 4,800 (96%)				
2021: 4,800 (96%)				
Transfer to other reserve		(301,213)		(464,637)
Unappropriated retained earnings to be carried forward	₩	-	₩	-

25. Real Estate Pre-sales Contract

(a) Ongoing real estate pre-sales contracts for the years ended December 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
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	100.00	₩ 1,212,711	₩ 1,212,711	₩ 1,212,154	₩ 300,169	₩ 535,019
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	100.00	112,049	112,049	109,719	29,610	67,853
Suwon hwaseo park prugio (Commercial facility)	January 2021	August 2021	100.00	60,443	60,443	57,262	57,262	16,590
Suwon hwaseo prugio briel	June 2020	September 2023	32.61	791,406	750,989	244,875	182,650	110,105
Total				₩ 2,176,609	₩ 2,136,192	₩ 1,624,010	₩ 569,691	₩ 729,567

¹ Excludes cumulative costs of ₩ 59,354 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) ²
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	76.86	₩ 1,188,449	₩ 1,186,585	₩ 911,985	₩ 477,684	₩ 379,683
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	76.10	112,056	106,493	80,109	41,425	48,728
Suwon hwaseo prugio briel	June 2020	September 2023	8.29	791,447	751,030	62,225	62,225	27,854
Total				₩ 2,091,952	₩ 2,044,108	₩ 1,054,319	₩ 581,334	₩ 456,265

¹ Excludes sales revenue for Dae-gu central Xi of ₩ 902 million for the year ended December 31, 2020 (construction has been completed as of December 31, 2020, but resale is underway due to cancellation of the sales contract).

² Excludes cumulative costs of ₩ 30,999 million for common infrastructure.

(b) Receivables and payables for ongoing real estate pre-sales contracts as of December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Construction project	2021			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo park prugio (Apartment)	₩ 1,212,154	₩ 1,202,022	₩ 10,132	₩ -
Suwon hwaseo park prugio (Efficiency apartment)	109,719	104,499	5,558	338
Suwon hwaseo park prugio (Commercial facility)	57,262	58,265	-	1,003
Suwon hwaseo prugio briecl	244,875	227,360	20,715	3,200
Total	₩ 1,624,010	₩ 1,592,146	₩ 36,405	₩ 4,541

(in millions of Korean won)

Construction project	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 briecl	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 year ended December 31, 2021. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2021 and subject to change in the future.

26. Operating Expenses

(a) Expenses classified by nature, incurred for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Changes in inventories	₩ 68,440	₩ (25,199)
Raw materials etc. used and merchandise purchased	1,076,958	851,032
Salaries	414,129	392,179
Retirement and termination benefits	41,192	39,700
Depreciation	134,595	125,159
Amortization	6,852	5,746
Employee welfare	56,193	50,063
Advertising	100,676	92,024
Commissions	185,443	185,288
Other expenses	322,555	382,374
Total	<u>₩ 2,407,033</u>	<u>₩ 2,098,366</u>

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(b) Selling, general and administrative expenses for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Salaries	₩ 281,400	₩ 265,983
Retirement and termination benefits	28,481	28,042
Employee welfare	40,863	34,771
Travel expenses	4,364	3,389
Communication cost	2,683	2,748
Utilities	10,824	10,121
Taxes and dues	24,000	23,233
Supplies	2,261	2,811
Rent	6,092	6,181
Depreciation	34,798	36,999
Amortization	6,826	5,738
Repairs and maintenance	7,327	5,619
Vehicles	3,510	3,274
Insurance	1,349	1,314
Commissions	137,712	140,580
Freight and custody	12,318	11,004
Conferences	1,902	2,275
Advertising	100,619	91,946
Education and training	3,173	3,484
Prizes and rewards	1,885	2,267
Research and development	38,645	25,804
Impairment loss on trade receivables (reversal of)	65,796	(18,338)
Total	₩ 816,828	₩ 689,245

27. Other Income and Expense

(a) Other income for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Gain on foreign currency transaction	₩ 34,718	₩ 67,897
Gain on foreign currency translation	119,222	779
Gain on valuation of derivatives	1,368	33,358
Reversal of impairment loss on other receivables	2,874	2,308
Gain on disposal of property, plant and equipment	1,775	2,498
Gain on disposal of investment property	30	534
Gain on lease contract adjustments	311	71
Gain on disposal of assets held for sale	-	153,852
Gain on disposal of investments in associates and joint ventures	-	2,208
Miscellaneous income	7,915	12,872
Total	₩ 168,213	₩ 276,377

(b) Other expense for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Loss on foreign currency transaction	₩ 5,713	₩ 46,895
Loss on foreign currency translation	711	154,320
Loss on valuation of derivatives	23,123	17,421
Loss on impairment of other receivables	4,658	895
Loss on disposal of property, plant and equipment	2,382	3,180
Loss on impairment of property, plant and equipment	-	185
Loss on disposal of intangible assets	25	22
Loss on impairment of intangible assets	316	327
Loss on disposal of investment properties	128	493
Loss on disposal of assets held for sale	-	1
Loss on impairment of assets held for sale	-	424
Loss on impairment of investments in subsidiaries	23,233	23,967
Loss on lease contract adjustments	17	-
Donations	40,178	5,085
Miscellaneous loss	4,456	2,521
Total	₩ 104,940	₩ 255,736

28. Finance Income and Costs

(a) Finance income and costs for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
Finance income:				
Interest income ¹	₩	13,395	₩	17,584
Dividend income		28,934		26,027
Gain on adjustment of debt		-		15
Gain on valuation of financial assets at fair value through profit or loss		28,993		43,881
Gain on disposal of long-term deposits in MSA Escrow Fund		-		29,303
Total finance income	₩	71,322	₩	116,810
Finance costs:				
Interest expense	₩	1,746	₩	1,749
Loss on valuation of financial assets at fair value through profit or loss		100		-
Loss on valuation of financial assets at fair value through profit or loss		13,371		7,242
Total finance cost	₩	15,217	₩	8,991
Net finance income	₩	56,105	₩	107,819

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

(b) Details of interest income included in finance income for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
Deposits	₩	3,470	₩	4,883
Trade and other receivables		7,657		6,588
Long-term deposits		2,268		6,113
Total	₩	13,395	₩	17,584

(c) Details of interest expense included in finance cost for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
Trade and other payables	₩	1,055	₩	1,083
Lease liabilities		691		666
Total	₩	1,746	₩	1,749

29. Income Tax Expense and Deferred Tax Asset

(a) Details of income tax expenses elements for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Current tax on profits for the year	₩ 379,976	₩ 396,745
Adjustments with respect to past income taxes, etc.	(2,341)	(6,947)
Increase/decrease from temporary differences	(27,777)	371
Income tax	<u>₩ 349,858</u>	<u>₩ 390,169</u>

(b) Details of the relationship between income tax expenses and accounting profit for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Profit before income tax expense	₩ 1,202,802	₩ 1,465,478
Tax rate (%)	26.64	26.79
Tax expense calculated at applicable rates	320,409	392,645
Adjustments:		
Non-taxable income	(738)	(909)
Expenses not deductible for tax purposes	1,335	1,518
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	6,312	5,657
Tax credit	(4,560)	(1,944)
Adjustments with respect to past income taxes	(2,341)	(6,947)
Effects of corporate earnings circulation tax	28,801	-
Others	639	149
Income tax expense	<u>₩ 349,858</u>	<u>₩ 390,169</u>
Average effective tax rate (%)	29.09	26.62

(c) Details of current and deferred income tax related to items recognized outside profit or loss for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Deferred tax:		
Gain (loss) on valuation of financial assets at fair value through other comprehensive income or loss	₩ (4,932)	6,290
Remeasurement element of net defined benefit liabilities	(9,488)	5,723
Total	<u>₩ (14,420)</u>	<u>₩ 12,013</u>

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(d) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			
	Beginning balance	Profit or loss	Other comprehensive loss	Ending balance
Accumulated depreciation	₩ 10,437	₩ 365	₩ -	₩ 10,802
Loss allowance	36,308	19,139	-	55,447
Financial assets at fair value through other comprehensive income or loss (profit or loss)	20,580	60	(4,932)	15,708
Accrued expenses	36,258	7,580	-	43,838
Defined benefit liabilities	6,099	(3,122)	(9,488)	(6,511)
Treasury shares	(9,411)	-	-	(9,411)
Investments in subsidiaries	(71,150)	-	-	(71,150)
Advanced depreciation provision	(10,004)	-	-	(10,004)
Others	16,764	3,755	-	20,519
Total	₩ 35,881	₩ 27,777	₩ (14,420)	₩ 49,238

(in millions of Korean won)

	2020			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Accumulated depreciation	₩ 9,844	₩ 593	₩ -	₩ 10,437
Loss allowance	43,223	(6,915)	-	36,308
Financial assets at fair value through other comprehensive income or loss (profit or loss)	14,324	(34)	6,290	20,580
Accrued expenses	33,102	3,156	-	36,258
Defined benefit liabilities	2,017	(1,641)	5,723	6,099
Treasury shares	(9,411)	-	-	(9,411)
Investments in subsidiaries	(71,692)	542	-	(71,150)
Advanced depreciation provision	(10,004)	-	-	(10,004)
Others	12,836	3,928	-	16,764
Total	₩ 24,239	₩ (371)	₩ 12,013	₩ 35,881

(e) Temporary differences related to investment in subsidiaries etc. which are deductible (taxable) as of December 31, 2021 and 2020 are as follows. They have not been recognized as deferred tax assets (liabilities) since it does not seem probable in the foreseeable future that they will not be realized:

(in millions of Korean won)

	2021	2020
Deductible temporary differences	₩ 393,389	₩ 374,610
Taxable temporary differences	(269,346)	(280,079)
Total	₩ 124,043	₩ 94,531

30. Earnings Per Share

(a) The relationship between EPS and accounting profit for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won, Korean won, and shares)</i>	2021	2020
Profit for the period attributable to owners of the Company	₩ 852,944	₩ 1,075,309
Weighted average number of ordinary shares outstanding (in shares)	123,731,183	125,719,943
Basic and diluted EPS (in Korean won)	6,894	8,553

(b) The relationship between EPS and accounting profit for the years ended December 31, 2021 and 2020, are as follows:

<i>(in shares)</i>		2021		
	Date	Number of shares (in shares)	Days	Weighted shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	₩ 50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(13,212,574)	365	(4,822,589,510)
Acquisition of treasury shares	Nov. 5, etc. ~ Dec. 31	(4,100,000)	9 ~ 57	(127,290,000)
Total				₩ 45,161,881,895
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				123,731,183

<i>(in shares)</i>		2020		
	Date	Number of shares (in shares)	Days	Weighted shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	366	₩ 50,249,053,902
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(10,712,574)	366	(3,920,802,084)
Acquisition of treasury shares	Aug. 7, etc. ~ Dec. 31	(2,500,000)	108 ~ 147	(314,752,806)
Total				₩ 46,013,499,012
Days in circulation (days)				366
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				125,719,943

The weighted average number of ordinary shares is the number of ordinary shares acquired and disposed of during the period or the number of newly issued ordinary shares, adjusted to take into account the weighting of each period.

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31. Related Parties

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

Type	Name of entity	Location	Percentage of ownership (%)					
			2021			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 Tuntun Mamulleri Sanyl ve Ticaret A.Ş.	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
	Cosmocos Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56
	Renzouluc Pte., Ltd. ¹	Singapore	100.00	-	100.00	100.00	-	100.00
	PT 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
	Gwachon SangSang PFV	Korea	51.00	-	51.00	51.00	-	51.00
	KT&G Taiwan Corporation ²	Taiwan	100.00	-	100.00	-	-	-
	Mastern No.144 PFV Co. Ltd. ²	Korea	92.50	-	92.50	-	-	-
	K&I HK Co., Ltd.	Hong Kong	-	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
	Korea Red Ginseng Corp., Inc.	USA	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00
	Korea Ginseng 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	12.88	-	12.88	16.75	-	16.75
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd. ^{3,4}	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
	KOCREF 36 REIT ⁵	Korea	21.01	-	21.01	-	-	-
	AndaStation Professional Investment Private REIT No.1 ⁶	Korea	21.43	-	21.43	-	-	-
	Kiwoom Milestone Private Placement Real Estate Investment Trust No.16 ⁷	Korea	45.50	-	45.50	-	-	-
	Cheongna Medipolis PFV Co., Ltd. ^{2,8}	Korea	56.74	-	56.74	-	-	-
	INNODIS ³	Korea	19.60	-	19.60	19.60	-	19.60
	SJ BIO MED Co., Ltd. ³	Korea	14.39	-	14.39	14.39	-	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	23.13	-	23.13	23.15	-	23.15
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁹	Germany	51.35	-	51.35	51.35	-	51.35
	Starfield Suwon, Inc	Korea	50.00	-	50.00	50.00	-	50.00

¹ The Company has acquired additional 6,978,948 convertible preference shares of Renzoluc Pte., Ltd. The percentage of ownership is 100% (2020: 88.60%) including preferred shares as of December 31, 2021.

² The Company has established KT&G Taiwan, Mastern No.144 PFV Co. Ltd., and Cheongna Medipolis PFV Co.,Ltd. through capital investment during the year ended December 31, 2021.

³ It is classified as an investment in associates although the Company'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 Company determined that it has significant influence over the invested company.

⁴ The Company has classified its holdings as assets held for sale as the Company has entered into a sales agreement.

⁵ Due to a capital increase with consideration through dilutive secondary offerings during the year ended December 31, 2021, the Company has acquired its significant influence in the invested company. The Company has reclassified its holdings as an investment in associates.

⁶ The Company has acquired AndaStation Professional Investment Private REIT No.1 during the year ended December 31, 2021.

⁷ It is reclassified as an investment in associates since the Company reassessed that it has significant influence over the invested company during the year ended December 31, 2021.

⁸ It was classified as an associate since decisions about the significant financial and operating policies of the investee could not be made without consents from 3/4 of the directors in accordance with the investors' agreement.

⁹ 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.

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(b) The Company carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for the years ended December 31, 2021 and 2020, are as follows:

(1) Sales and other income

<i>(in millions of Korean won)</i>			2021		2020
Type	Name of entity				
Subsidiaries	Korea Ginseng Corporation	₩	8,635	₩	9,982
	Youngjin Pharm. Co., Ltd.		343		598
	Tae-A Industry Co., Ltd.		458		406
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.Ş. ¹		8,016		9,124
	Korea Tabacos do Brasil Ltda. ¹		4		4
	KT&G Rus L.L.C. ¹		34,536		31,147
	KT&G USA Corporation		156,752		205,875
	Cosmococ Co., Ltd.		118		119
	PT KT&G Indonesia ¹		1,057		1,133
	SangSang Stay, Inc.		4,801		5,443
	KT&G Global Rus L.L.C. ¹		224		29
	KGC Yebon Corporation		18		18
	KGC Life &Gin Co., Ltd.		351		464
	PT Trisakti Purwosari Makmur ¹		25,422		20,799
Associates	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.		18		-
	KOCREF 36 REIT		2,070		-
	AndaStation Professional Investment Private REIT No.1		481		-
	Kiwoom Milestone Private Placement Real Estate Investment Trust No.16		1,212		-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund		1,260		1,227
	Starfield Suwon, Inc.		615		51
	Total	₩	246,391	₩	286,419

¹ Excludes impairment loss of ₩ 68,337 million (2020: ₩ 5,607 million) in relation to the related parties for the year ended December 31, 2021.

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(2) Purchases and other expenses

(in millions of Korean won)

		2021		2020	
Type	Name of entity				
Subsidiaries	Korea Ginseng Corporation	₩	1,204	₩	1,556
	Youngjin Pharm. Co., Ltd.		339		213
	Tae-A Industry Co., Ltd.		25,290		21,791
	Korea Tabacos do Brasil Ltda.		180		260
	KT&G Rus L.L.C.		2		1
	Cosmococ Co., Ltd.		273		611
	SangSang Stay, Inc.		154		67
	KGC Yebon Corporation		175		154
	KGC Life &Gin Co., Ltd.		34		57
	PT Trisakti Purwosari Makmur		1		-
Associates	INNODIS		2,454		2,149
Joint ventures	Starfield Suwon, Inc.		811		-
Total		₩	30,917	₩	26,859

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

(in millions of Korean won)

		2021		2020	
Type	Name of entity	Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ -	₩ 2,022	₩ 543	₩ 1,894
	Youngjin Pharm. Co., Ltd.	-	48	81	58
	Tae-A Industry Co., Ltd.	-	4,400	-	4,408
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.Ş. ¹	49,596	-	43,349	-
	Korea Tabacos do Brasil Ltda. ^{1,2}	118	-	113	-
	KT&G Pars ^{1,2}	44,526	-	44,525	-
	KT&G Rus L.L.C. ¹	40,213	-	29,205	-
	KT&G USA Corporation ¹	53,094	297	80,993	272
	Cosmococ Co., Ltd.	-	-	5	-
	PT KT&G Indonesia ^{1,2}	28,745	-	28,353	-
	KT&G Global Rus L.L.C	254	-	27	-
	KGC Yebon Corporation	-	8,949	-	9,596
	KGC Life &Gin Co., Ltd.	-	135	-	135
	PT Trisakti Purwosari Makmur ¹	36,835	-	36,444	-
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	18	-	-	-
Associates	AndaStation Professional Investment Private REIT No.1	481	-	-	-
	INNODIS	-	-	-	32
Total		₩ 253,880	₩ 15,851	₩ 263,638	₩ 16,395

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¹ Presented in total amount before deducting loss allowance of ₩ 145,406 million and ₩ 77,069 million as of December 31, 2021 and 2020.

² Includes loans to related parties.

(d) Purchase and sale of property, plant and equipment, intangible assets (including assets held for sale) and right-of-use assets from related parties for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	2021		2020			
		Purchase of property, plant and equipment	Purchase of right-of-use assets	Purchase of intangible assets	Sale of property, plant and equipment	Sale of assets held for sale	
Subsidiaries	Tae-A Industry Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ -	432
	KGC Yebon Corporation	246	10,162	-	-	-	-
	PT Trisakti Purwosari Makmur	-	-	-	4,181	-	2,009
Associates	INNODIS	-	-	160	-	-	-
Joint ventures	Starfield Suwon, Inc	-	-	-	-	-	160,718
	Total	₩ 246	₩ 10,162	₩ 160	₩ 4,181	₩ -	₩ 163,159

(e) Details of fund transactions with related parties for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Type	Name of entity	2021			2020		
		Equity investment	Repayment of lease liabilities	Equity recovery	Equity investment	Repayment of lease liabilities	Equity recovery
Subsidiaries	KT&G Taiwan Corporation	₩ 8,081	₩ -	₩ -	₩ -	₩ -	₩ -
	Master No.144 PFV Co. Ltd.	37,000	-	-	-	-	-
	PK KT&G Indonesia	-	-	2,651	-	-	-
	SangSang Stay, Inc.	-	-	-	20,000	-	-
Associates	KGC Yebon Corporation	-	647	-	-	566	-
	KORAMCO Ocheon Project Financing Vehicle Co., Ltd.	-	-	-	5,685	-	-
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.	-	-	-	5,306	-	-
	KORAMCO Dongjak Project Financing Vehicle Co., Ltd.	-	-	-	1,850	-	-
	KORAMCO Amsa Project Financing Vehicle Co., Ltd.	-	-	-	1,159	-	-
	AndaStation Professional Investment Private REIT No.1	17,764	-	-	-	-	-
	Cheongna Medipolis PFV Co., Ltd.	17,022	-	-	-	-	-
	KB Gimpo Logistics CR REIT Co., Ltd. ¹	-	-	-	-	-	3,356
	KORAMCO Europe Private ReIT 3-2 Fund ¹	-	-	-	-	-	17,852
	Starfield Suwon, Inc	45,000	-	-	87,500	-	-
	Total	₩ 124,867	₩ 647	₩ 2,651	₩ 121,500	₩ 566	₩ 21,208

¹According to the liquidation procedure for these equity investments, the Group was allocated a portion of the remaining assets during the year ended December 31, 2020.

(f) As of December 31, 2021, KT&G USA Corporation is being provided with 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 (Note 34 (3)).

(g) During the year ended December 31, 2020, the Company have renewed a contract which extends the maturity of its loan to PT KT&G Indonesia of USD 22,975 thousand. Also, the Company has entered into a funding agreement for operating fund and other management related support in relation to KT&G USA Corporation, PT KT&G Indonesia, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. and , the subsidiaries of the Company.

(h) 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.

(i) The Company has entered into a contribution agreement for equity instruments of Cheongna Medipolis PFV Co.,Ltd., a subsidiary, with the limit of 101,000 million. As of December 31, 2021, the remaining balance for contribution amount to 83,978 million, and the contribution is expected to be completed by the date of payment for land purchase and sale agreement for the relevant business. Also, the equity share shall not be transferred without approval of all shareholders and Incheon Free Economic Zone. The Company requires ultimate agreement of the other shareholders at disposal.

(j) As of December 31, 2021, the Company has entered into a capital call agreement with KORAMCO Europe Private REIT 3-2 Fund. 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.

(k) The Company has a joint disposal right to require other investors to dispose their holdings under the same conditions at the disposal of the shares of Mastern No.144 PFV Co. Ltd. Also, when shareholders other than the Company dispose of shares with approval of Board of Directors and at Shareholders Meeting, the Company has a pre-emptive right to purchase such shares under the condition notified by other shareholders. However, the pre-emptive right to purchase shares are not required, and the other investors delegates their right for disposal to the Company.

(I) Key management personnel compensation for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Long (short)-term employee benefits	₩	23,162	₩	23,107
Retirement benefits		2,538		2,354
Total	₩	25,700	₩	25,461

32. 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 companywide risk management policies and procedures and the finance department of the Company has overall responsibility for risk management. The finance department of the Company is responsible for monitoring and managing the financial risks associated with the operations of the Company in accordance with the risk management policies and procedures approved by the board of directors, and it periodically analyzes the nature and exposure of the financial risks. In addition, the Company's 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.

The carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
		Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩	1,885,550	₩ 16,521	₩ 1,610,925	₩ 33,168
IDR		1,857	-	2,307	-
EUR		29,148	2,733	29,433	11,753
Others		40,126	399	26,260	1,112
Total	₩	1,956,681	₩ 19,653	₩ 1,668,925	₩ 46,033

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
		10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩	193,703	₩ (193,703)	₩ 162,289	₩ (162,289)

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.

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020	
		5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	₩	3,191	₩ (3,191)	₩ 3,640	₩ (3,640)

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Company regularly

measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Company as of December 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.

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021		2020
Cash and cash equivalents (excluding cash on hand) ¹	₩	181,876	₩	225,699
Other financial assets		340,907		339,137
Financial assets at fair value through profit or loss ¹		1,672,588		2,013,316
Trade and other receivables		916,474		1,170,996
Long-term deposits		1,250,468		909,794
Derivative assets		580		12,710
Total	₩	4,362,893	₩	4,671,652

¹ As of December 31, 2021, money market trust and others amounting to ₩ 408,723 million (2020: ₩ 850,287 million) classified as cash equivalents are included in the financial assets at fair value through profit or loss.

(c) Liquidity risk

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

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The maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2021 and 2020, is as follows:

(in millions of Korean won)

	2021					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 589	₩ 589	₩ 589	₩ -	₩ -	₩ -
Trade and other payables	475,267	477,095	430,717	27,169	14,253	4,956
Derivative liabilities	908	908	908	-	-	-
Lease liabilities	22,220	23,598	2,049	5,302	9,997	6,250
Total	₩ 498,984	₩ 502,190	₩ 434,263	₩ 32,471	₩ 24,250	₩ 11,206

(in millions of Korean won)

	2020					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 817	₩ 817	₩ 817	₩ -	₩ -	₩ -
Trade and other payables	549,848	552,256	497,695	30,365	19,240	4,956
Derivative liabilities	57	57	57	-	-	-
Lease liabilities	28,897	30,765	2,430	6,312	15,023	7,000
Total	₩ 579,619	₩ 583,895	₩ 500,999	₩ 36,677	₩ 34,263	₩ 11,956

The cash flows of financial liabilities per maturity remaining, as stated above, are undiscounted nominal values. The above cash flows have been calculated by using the earliest date from the period of time that the Company can be requested to make payment, and includes cash flows for interest.

As of December 31, 2021, the Company provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of Suwon hwaseo (guarantee limit: ₩ 225,600 million, remaining contract maturity: 1 ~ 5 years) and has recognized a financial guarantee provision liability of ₩ 271 million (2020: ₩ 622 million) (Notes 20 and 34).

In addition, the Company provides contribution commitment for debt/equity instruments, capital call agreement for overseas property fund and others. Maximum exposure of liquidity risk in relation to such agreements are equal to the agreed amount (Note 34).

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

<i>(in millions of Korean won)</i>		2021		2020
Financial assets:				
Financial assets at fair value through profit or loss ¹	₩	1,672,588	₩	2,013,316
Financial assets at fair value through other comprehensive income or loss		203,172		214,394
Derivative assets		580		12,710
Financial assets measured at amortized cost				
Cash and cash equivalents ¹		181,880		225,827
Other financial assets		340,907		339,137
Trade and other receivables		916,474		1,170,996
Long-term deposits		1,250,468		909,794
Subtotal		2,689,729		2,645,754
Total financial assets	₩	4,566,069	₩	4,886,174
Financial liabilities:				
Derivative liabilities	₩	908	₩	57
Financial liabilities measured at amortized cost				
Short-term borrowings		589		817
Trade and other payables		475,267		549,848
Lease liabilities		22,220		28,897
Subtotal		498,076		579,562
Total financial liabilities	₩	498,984	₩	579,619

¹ As of December 31, 2021, money market trust worth ₩ 408,723 million (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:

	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

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

(in millions of Korean won)	2021				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss ¹	₩ 1,672,588	₩ -	₩ 1,391,527	₩ 281,061	
Fair value through other comprehensive income or loss	203,172	171,591	-	31,581	
Derivative assets	580	-	580	-	
Total financial assets	₩ 1,876,340	₩ 171,591	₩ 1,392,107	₩ 312,642	
Derivative liabilities	₩ 908	₩ -	₩ 908	₩ -	

¹ As of December 31, 2021, money market trust amounting to ₩ 408,723 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

(in millions of Korean won)	2020				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss ¹	₩ 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	₩ -	

¹ As of December 31, 2020, money market trust amounting to ₩ 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 years ended December 31, 2021 and 2020.

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As of December 31, 2021 and 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 years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
Beginning balance	₩	277,264	₩	297,453
Acquisition		82,232		12,242
Disposal		(36,582)		(36,801)
Transfers		(30,100)		945
Changes in fair value		19,828		3,425
Ending balance	₩	312,642	₩	277,264

(f) Net gains or losses by category of financial instruments for the years ended December 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	₩ -	₩ -	₩ -	₩ 13,395	₩ -	₩ 13,395	
Dividend income	12,838	11,055	-	-	-	23,893	
Gain or loss on valuation	15,622	-	(21,755)	-	-	(6,133)	
Gain on disposal	-	-	-	-	311	311	
Interest expense	-	-	-	-	(1,746)	(1,746)	
Reversal of impairment loss	-	-	-	(67,580)	-	(67,580)	
Total	₩ 28,460	₩ 11,055	₩ (21,755)	₩ (54,185)	₩ (1,435)	₩ (37,860)	
Other comprehensive income before tax:							
Net change in fair value	₩ -	₩ 16,773	₩ -	₩ -	₩ -	₩ 16,773	

(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	₩ -	₩ -	₩ -	₩ 17,584	₩ -	₩ 17,584	
Dividend income	14,260	10,541	-	-	-	24,801	
Gain or loss on valuation	36,639	-	15,937	-	15	52,591	
Gain on disposal	-	-	-	29,303	71	29,374	
Interest expense	-	-	-	-	(1,749)	(1,749)	
Impairment loss	-	-	-	19,751	-	19,751	
Total	₩ 50,899	₩ 10,541	₩ 15,937	₩ 66,638	₩ (1,663)	₩ 142,352	
Other comprehensive loss before tax:							
Net change in fair value	₩ -	₩ (22,873)	₩ -	₩ -	₩ -	₩ (22,873)	

33. Capital Management

The purpose of capital management of the Company is to maintain its viability as a continuous company and maximize shareholder profits by maintaining a sound capital structure and minimizing capital procurement costs. The Board of Directors is striving to balance the return on higher borrowing with sound financial position.

The Company manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous fiscal year. Details on the Company's capital structure as of December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Total borrowings	₩	589	₩ 817
Less: Cash and cash equivalents		(590,603)	(1,076,114)
Less: Current other financial assets		(332,200)	(330,597)
Less: Current financial instruments measured at fair value through profit or loss		(965,384)	(914,424)
Net assets	₩	(1,887,598)	₩ (2,320,318)
Total equity	₩	8,000,115	₩ 8,053,942

34. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2021, the Company has 5 cases of pending litigations under progress where the Company is the defendant and the litigation amounts are ₩ 59,668 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of December 31, 2021, on the financial statements of the Company.

(b) Commitments with financial institutions

Details of the commitments of the Company with financial institutions as of December 31, 2021, are as follows:

<i>(in millions of Korean won or thousands of US dollars)</i>			
Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank and one other	USD	110,000
Derivatives trading ¹	Hana Bank and five others	USD	374,700

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

As of December 31, 2021, the Company entered into a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 120,940 thousand, EUR 1,200 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 December 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	465,870	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	7,883	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,020	Escrow deposit guarantee
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

As of December 31, 2021, 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 December 31, 2021, are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Suwon hwaseo park prugio (Apartment)	Shinhan Bank and two others	₩ 139,400	₩ 4,211	Loan guarantee for the intermediate payment of off-plan sales construction
Suwon hwaseo park prugio (Efficiency apartment)		9,480	818	
Suwon hwaseo prugio briel		76,720	25,781	
Total		₩ 225,600	₩ 30,810	

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 17).

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

<i>(in millions of Korean won)</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩ 481,790	₩ 27,193	29,629	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
Other financial assets	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Total	₩ 492,697	₩ 27,790	₩ 40,536		

As of December 31, 2021, the Company's holdings in KORAMCO Banpo Project Financing Vehicle Co., Ltd. is pledged as collateral for a PF loan.

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

<i>(in millions of Korean won)</i>		2021	2020
Other financial assets	Establishment of a pledge to guarantee real estate development	₩ 10,310	₩ 8,540
	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Total	₩ 110,907	₩ 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 ₩ 1,250,468 million as of December 31, 2021 (2020: ₩ 909,794 million), as long-term deposits in MSA Escrow Fund and they consist of T-Notes, T-bills and demand deposits.

The Company 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 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 December 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.

The Company has entered into a contribution agreement for the debt instruments of Smilegate New Deal Fund and others with the limit of ₩ 23,000 million in total. As of December 31, 2021, the outstanding balance of the contribution agreement is ₩ 7,453 million, and the detailed schedule for contribution has not been determined.

The Company has entered into a contribution agreement for equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the limit of ₩ 101,000 million. As of December 31, 2021, the outstanding balance of the contribution is ₩ 83,978 million, and the contribution will be made by the payment date for land purchase and sale agreement for the relevant business. Also, the equity shares shall not be transferred without approval of all shareholders and Incheon Free Economic Zone. Upon disposal of the equity shares, unanimous consent of the other shareholders is required.

The Company has a joint disposal right to require other investors to dispose their holdings under the same conditions at the disposal of the shares of Mastern No.144 PFV Co. Ltd. Also, when shareholders other than the Company dispose of shares with approval of Board of Directors and at Shareholders Meeting, the Company has a pre-emptive right to purchase such shares under the condition notified by other shareholders. However, the pre-emptive right to purchase shares are not required, and the other investors delegates their right for disposal to the Company.

As of December 31, 2021, the Company is being provided with a commitment 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 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 hwaseo.

During the year ended December 31, 2021, the Company has entered into a funding agreement for operating fund and other management related support in relation to KT&G USA Corporation, PT KT&G Indonesia, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. and, the subsidiaries of the Company.

As of December 31, 2021, the Company and KT&G USA Corporation received an order from the US Department of Justice (DOJ) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US and the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of December 31, 2021.

35. Cash Flows

(a) Details of cash generated from operations for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	₩		₩	
Profit for the year		852,944		1,075,309
Adjustments:				
Employee welfare		12,308		3,102
Retirement benefits		34,853		31,858
Loss on valuation or obsolescence of inventories		18,425		3,086
Depreciation		134,595		125,159
Amortization		6,852		5,746
Reversal of impairment loss on trade and other receivables		67,580		(19,751)
Loss on foreign currency translation		711		154,320
Loss on valuation of derivatives		23,123		17,421
Loss on disposal of property, plant and equipment		2,382		3,180
Loss on impairment of property, plant and equipment		-		185
Loss on disposal of intangible assets		25		22
Loss on impairment of intangible assets		316		327
Loss on disposal of investment properties		128		493
Loss on disposal of assets held for sale		-		1
Loss on impairment of assets held for sale		-		424
Loss on impairment of investments in subsidiaries		23,233		23,967
Other expenses, etc.		8,272		21,400
Finance cost		15,217		8,991
Income tax expense		349,858		390,169
Gain on foreign currency translation		(119,222)		(779)
Gain on valuation of derivatives		(1,368)		(33,358)
Gain on disposal of property, plant and equipment		(1,775)		(2,498)
Gain on disposal of investment property		(30)		(534)
Gain on disposal of assets held for sale		-		(153,852)
Gain on disposal of investments in joint ventures		-		(2,208)
Other income, etc.		(6,912)		(44,600)
Finance income		(71,322)		(116,810)

Changes in working capital:

Decrease (increase) in trade and other receivables	205,057	(288,284)
Decrease (increase) in derivatives	(8,775)	5,561
Decrease (increase) in inventories	(19,205)	4,968
Increase in accrued tobacco excise and other taxes	(69,847)	(12,316)
Increase in advance payments	9	289
Decrease (increase) in prepaid expenses	7,519	(9,755)
Increase in trade and other payables	44,413	3,147
Increase (decrease) in advance receipts	(85,103)	48,974
Increase in tobacco excise and other taxes payable	115,720	338,656
Decrease in provision for site restoration	(8,734)	(6,279)
Decrease in net defined benefit liabilities	(49,646)	(36,037)
Cash generated from operations	₩ 1,481,601	₩ 1,539,694

(b) Material transactions without cash inflow and outflow for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021	2020
Reclassification of property, plant and equipment to investment properties	₩ 36,878	₩ 43,300
Reclassification of other payables related to the payment of tobacco excise payables by credit card	6,327	297,971
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	140,525	219,600

(c) Changes in liabilities due to financing activities for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ -	₩ (595,584)	₩ 595,584	₩ -
Short-term borrowings	817	-	(228)	589
Lease liabilities	28,897	(10,206)	3,529	22,220
Total	₩ 29,714	₩ (605,790)	₩ 598,885	₩ 22,809

(in millions of Korean won)

	2020			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ -	₩ (556,952)	₩ 556,952	₩ -
Short-term borrowings	1,007	-	(190)	817
Lease liabilities	18,128	(8,697)	19,466	28,897
Total	<u>₩ 19,135</u>	<u>₩ (565,649)</u>	<u>₩ 576,228</u>	<u>₩ 29,714</u>

(d) The Company has presented the inflows and outflows from cash and cash equivalents, financial assets at fair value through profit or loss and others that have large total amounts and short maturities due to frequent transactions as a net increase/decrease amount.

36. Events After the Reporting Period

The Company is engaged in manufacturing and selling tobacco in Russia. After the reporting period, the U.S. and others impose economic sanctions on Russia including restriction on SWIFT international payment network, and the ultimate outcome of the impact on the Russia business of the Company and its financial position cannot be reasonably estimated.



Report on Independent Auditor's Audit of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

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

Opinion on Internal Control over Financial Reporting

We have audited KT&G Corporation's (the Company) Internal Control over Financial Reporting as at December 31, 2021, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2021, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We also have audited, in accordance with Korean Standards on Auditing, the financial statements of the Company, which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements including a summary of significant accounting policies, and our report dated March 18, 2022 expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.



An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Heung-Su Lee, Certified Public Accountant.

Seoul, Korea

March 18, 2022

This report is effective as at March 18, 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the Company's internal control over financial reporting thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Shareholders, Board of Directors and Audit Committee of KT&G Corporation

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of KT&G Corporation (the Company), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2021.

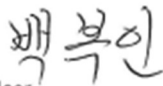
The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2021, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 9, 2022

Bok In Baek
Chief Executive Officer



Yong bum Kim
Internal Control over Financial Reporting Officer

