

# **KT&G Corporation and Subsidiaries**

Consolidated Interim financial statements  
March 31, 2022



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## Independent Auditor's Review Report

Shareholders and the Board of Directors  
KT&G Corporation

We have reviewed the accompanying consolidated interim financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position as of March 31, 2022, and the related consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the three-month period ended March 31, 2022, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Interim Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

We conducted our review in accordance with the review standards for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Auditing Standards ("KGAAS") and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not prepared, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

### Other Matters

The consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the three-month period ended March 31, 2021, prepared in accordance with KIFRS 1034 and presented for comparative purposes, have been reviewed by Samil PricewaterhouseCoopers whose report dated May 14, 2021 expressed an unqualified review conclusion.

Moreover, the consolidated interim statement of comprehensive income for the three-month period ended March 31, 2021, on which another auditor expressed an unqualified review conclusion, did not reflect adjustments described in Note 25. The consolidated interim statement of comprehensive income for the three-month period ended March 31, 2021, presented for comparative purposes, reflect the adjustments described in Note 25.

Moreover, the consolidated statement of financial position of the Group as of December 31, 2021, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended which have been audited by Samil PricewaterhouseCoopers, in accordance with KGAAS (not presented herein), whose report dated March 18, 2022 expressed an unqualified opinion. The accompanying consolidated statement of financial position as of December 31, 2021, presented for comparative purpose are not different, in all material respects, from the above audited consolidated statement of financial position.

May 13, 2022

*Ernst & Young Han Young*

<p>This review report is effective as of May 13, 2022, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying consolidated interim financial statements and may result in modifications to this review report.</p>
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# **KT&G Corporation and Subsidiaries**

## **Consolidated Interim Financial Statements for the three-month periods ended March 31, 2022 and 2021**

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

Head office location: 71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea  
Phone: 080-931-0399

**KT&G Corporation and Subsidiaries**  
**Consolidated Interim Statements of Financial Position**  
**As of March 31, 2022 and December 31, 2021**



(in Korean won)		March 31, 2022 (unaudited)		December 31, 2021
	Notes			
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	22,23	₩ 896,595,728,347	₩	946,570,845,404
Current other financial assets	22,23	552,324,897,833		457,056,795,720
Current financial assets at fair value through profit or loss	22	1,109,636,675,957		965,384,441,544
Trade and other receivables	5,16,21,22	1,221,268,629,377		1,012,741,494,275
Derivative assets	22,23	674,549,944		580,339,743
Inventories	6	2,260,440,809,135		2,375,380,884,539
Refund assets and others		957,411,588		1,795,047,848
Accrued tobacco excise and other taxes		204,708,265,971		324,920,390,897
Advance payments	23	53,893,281,027		98,044,889,263
Prepaid expenses		44,795,576,046		53,262,710,533
Assets held for sale	4,12,21	25,415,204,879		20,123,696,708
<b>Total current assets</b>		<b>6,370,711,030,104</b>		<b>6,255,861,536,474</b>
<b>Non-current assets</b>				
Long-term other financial assets	22,23	2,665,690,653		9,001,281,420
Long-term deposits in MSA Escrow Fund	22,23	1,354,167,597,569		1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	22,23	276,714,956,014		304,815,651,866
Long-term trade and other receivables	5,21,22	99,007,871,619		94,759,875,704
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23	214,761,220,016		228,398,434,797
Investments in associates and joint ventures	4,7,21,23	290,388,377,482		242,991,736,041
Property, plant and equipment	8,23	1,767,190,319,560		1,741,041,767,893
Intangible assets	9	154,611,520,687		145,718,649,536
Investment properties	10,23	1,085,555,042,645		1,150,979,933,340
Right-of-use assets	11	35,590,514,235		36,444,918,106
Long-term advance payments	23	104,685,800,918		104,559,554,973
Long-term prepaid expenses		8,099,584,004		8,538,939,470
Deferred tax assets	20	42,551,197,555		52,555,448,304
Net defined benefit assets	14	5,261,065,659		11,135,956,233
<b>Total non-current assets</b>		<b>5,441,250,758,616</b>		<b>5,381,409,657,726</b>
<b>Total assets</b>		<b>₩ 11,811,961,788,720</b>	<b>₩</b>	<b>11,637,271,194,200</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Short-term borrowings	13,22,23	₩ 91,563,867,341	₩	75,432,490,744
Current portion of long-term borrowings	13,22,23	2,166,480,000		2,166,480,000
Trade and other payables	21,22,23	1,434,601,622,837		971,120,364,253
Current lease liabilities	22	15,590,615,556		17,180,641,274
Derivative liabilities	22,23	1,504,864,050		907,708,348
Advance receipts	16	30,189,502,851		21,918,095,726
Current refund liabilities and provisions	15,23	26,300,143,632		26,130,472,136
Current tax liabilities	20	252,152,384,996		236,397,106,383
Tobacco excise and other taxes payables		650,927,930,920		712,693,018,015
<b>Total current liabilities</b>		<b>2,504,997,412,183</b>		<b>2,063,946,376,879</b>
<b>Non-current liabilities</b>				
Long-term borrowings	13,22,23	53,052,810,888		53,195,098,748
Long-term trade and other payables	21,22,23	80,738,795,993		57,433,928,854
Long-term lease liabilities	22	18,546,914,034		19,377,131,556
Long-term advance receipts	16	4,184,399,848		5,077,077,062
Net defined benefit liabilities	14,21	61,497,114,149		57,735,568,500
Long-term refund liabilities and provisions	15,23	4,744,012,843		5,221,776,727
Deferred tax liabilities	20	165,099,830,460		148,104,701,940
Non-controlling interests liabilities	22	6,049,386,668		18,317,380,882
<b>Total non-current liabilities</b>		<b>393,913,264,883</b>		<b>364,462,664,269</b>
<b>Total liabilities</b>		<b>₩ 2,898,910,677,066</b>	<b>₩</b>	<b>2,428,409,041,148</b>

**KT&G Corporation and Subsidiaries**  
**Consolidated Interim Statements of Financial Position, Continued**  
**As of March 31, 2022 and December 31, 2021**



(in Korean won)

	<u>Notes</u>	<u>March 31, 2022</u> <u>(unaudited)</u>	<u>December 31, 2021</u>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		4,497,785,722	4,497,785,722
Treasury shares		(879,981,829,569)	(879,981,829,569)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,817,099,078,954	6,490,161,242,572
Retained earnings		<u>1,438,205,573,604</u>	<u>2,060,255,463,296</u>
<b>Equity attributable to owners of the Parent Company</b>		<u>8,863,674,147,617</u>	<u>9,158,786,200,927</u>
<b>Non-controlling interest</b>		<u>49,376,964,037</u>	<u>50,075,952,125</u>
<b>Total equity</b>		<u>8,913,051,111,654</u>	<u>9,208,862,153,052</u>
 <b>Total liabilities and equity</b>	₩	<u>11,811,961,788,720</u>	₩ <u>11,637,271,194,200</u>

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

**KT&G Corporation and Subsidiaries**  
**Consolidated Interim Statements of Comprehensive Income**  
**For the three-month periods ended March 31, 2022 and 2021**



(in Korean won)			March 31, 2022 (unaudited)	March 31, 2021 (unaudited)
	Notes			
<b>Continuing operations</b>				
<b>Sales</b>	4,16,21	₩	1,402,567,495,582	₩ 1,208,048,107,631
<b>Cost of sales</b>			(673,728,209,589)	(529,275,100,427)
<b>Gross profit</b>			728,839,285,993	678,773,007,204
Selling and administrative expense	17,21		(395,832,311,909)	(365,458,140,798)
<b>Operating profit</b>	4		333,006,974,084	313,314,866,406
Other income	18,21,22		74,433,843,559	74,884,388,819
Other expense	18,21,22		(27,061,817,889)	(24,446,463,843)
Finance income	19,22		32,730,145,250	20,397,293,840
Finance costs	19,22		(30,922,155,171)	(5,671,387,877)
Share of net profit of associates and joint ventures	7		13,965,701,364	20,911,569
<b>Profit before income tax</b>			396,152,691,197	378,499,608,914
Income tax expense	20		(128,403,399,227)	(109,233,209,799)
<b>Profit from continuing operations</b>			267,749,291,970	269,266,399,115
<b>Discontinued operations</b>				
Profit (loss) from discontinued operations	25		(4,373,645,191)	3,341,401,714
<b>Profit for the period</b>		₩	263,375,646,779	₩ 272,607,800,829
<b>Other comprehensive income (loss) for the period after income tax</b>				
Items that will not be reclassified to profit or loss				
Re-measurements of net defined benefit liabilities		₩	(676,519,947)	₩ (410,593,757)
Gain on valuation of fair value through other comprehensive income or loss	22		16,020,591,382	12,000,142,837
Capital changes in equity method	7		(614,037)	(264,639)
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations			1,373,484,825	5,767,952,817
Capital changes in equity method	7		-	105,788
			16,716,942,223	17,357,343,046
<b>Total comprehensive income for the period</b>		₩	280,092,589,002	₩ 289,965,143,875
<b>Profit for the period is attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations		₩	268,440,931,509	₩ 270,147,595,413
Profit (loss) from discontinued operations	25		(4,373,645,191)	3,341,401,714
Profit attributable to owners of the Parent Company			264,067,286,318	273,488,997,127
Non-controlling interests				
Loss from continuing operations			(691,639,539)	(881,196,298)
Profit (loss) from discontinued operations	25		-	-
Profit attributable to non-controlling interests			(691,639,539)	(881,196,298)
<b>Total</b>		₩	263,375,646,779	₩ 272,607,800,829
<b>Total comprehensive income (loss) for the period attributable to:</b>				
Owners of the Parent Company				
Profit from continuing operations		₩	285,709,749,800	₩ 286,420,292,260
Profit (loss) from discontinued operations	25		(4,918,172,710)	4,540,126,754
Total comprehensive income attributable to owners of the Parent Company			280,791,577,090	290,960,419,014
Non-controlling interests				
Loss from continuing operations			(698,988,088)	(995,275,139)
Profit (loss) from discontinued operations	25		-	-
Total comprehensive loss attributable to non-controlling interests			(698,988,088)	(995,275,139)
<b>Total</b>		₩	280,092,589,002	₩ 289,965,143,875
<b>Basic earnings (loss) per share</b>				
Basic and diluted earnings (loss) per share				
From continuing operations		₩	2,237	₩ 2,177
From discontinued operations			(36)	27
		₩	2,201	₩ 2,204

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



# KT&G Corporation and Subsidiaries

## Consolidated Interim Statements of Changes in Equity

For the three-month periods ended March 31, 2022 and 2021



(in Korean won)

	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent	Non-controlling Interest	Total equity
<b>Balance as of January 1, 2021</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,977,643,096,280	₩ 2,102,474,813,562	₩ 9,036,851,140,891	₩ 54,720,515,354	₩ 9,091,571,656,245
<b>Total comprehensive income (loss) for the period</b>									
Profit for the period	-	-	-	-	-	273,488,997,127	273,488,997,127	(881,196,298)	272,607,800,929
<b>Other comprehensive income (loss) for the period:</b>						(412,176,695)	(412,176,695)	1,582,938	(410,593,757)
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	12,000,142,837	-	12,000,142,837
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	5,883,614,596	-	5,883,614,596	(115,861,779)	5,767,752,817
Exchange differences on translating foreign operations	-	-	-	-	(158,851)	-	(158,851)	-	(158,851)
Capital changes in equity method	-	-	-	-	17,883,598,582	(412,176,695)	17,471,421,887	(114,078,841)	17,357,343,046
<b>Total comprehensive income (loss) for the period</b>					17,883,598,582	273,076,820,432	290,960,419,014	(995,275,139)	289,965,143,875
<b>Transactions with owners of the Parent Company:</b>									
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)	-	(595,583,630,400)
Transfer to other reserve	-	-	-	-	484,637,806,718	(484,637,806,718)	-	-	-
<b>Balance as of March 31, 2021 (unaudited)</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,460,164,501,580	₩ 1,315,330,196,876	₩ 8,732,227,929,505	₩ 53,725,240,215	₩ 8,785,953,169,720
<b>Balance as of January 1, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,490,161,242,572	₩ 2,060,255,463,296	₩ 9,158,786,200,927	₩ 50,075,952,125	₩ 9,208,882,153,052
<b>Total comprehensive income (loss) for the period</b>									
Profit for the period	-	-	-	-	-	264,067,286,318	264,067,286,318	(691,639,539)	263,375,646,779
<b>Other comprehensive income (loss) for the period:</b>						(670,404,131)	(670,404,131)	(6,115,816)	(676,519,947)
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	16,020,591,382	-	16,020,591,382	-	16,020,591,382
Transfer from gain on disposal of financial assets to retained earnings	-	-	-	-	8,330,221,000	(8,330,221,000)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	1,374,717,558	-	1,374,717,558	(1,232,733)	1,373,484,825
Capital changes in equity method	-	-	-	-	(614,037)	-	(614,037)	-	(614,037)
<b>Total comprehensive income (loss) for the period</b>					25,724,915,903	(9,000,625,131)	16,724,290,772	(7,348,549)	16,716,942,223
<b>Transactions with owners of the Parent Company:</b>									
Dividends	-	-	-	-	-	255,066,661,187	280,791,577,090	(688,988,088)	280,092,589,002
Transfer to other reserve	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	(575,903,630,400)
<b>Balance as of March 31, 2022 (unaudited)</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,817,095,078,954	₩ 1,438,205,575,604	₩ 8,983,674,147,617	₩ 49,376,964,037	₩ 8,913,051,111,654

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

**KT&G Corporation and Subsidiaries**  
**Consolidated Interim Statements of Cash Flows**  
**For the three-month periods ended March 31, 2022 and 2021**



<i>(in Korean won)</i>	<b>Notes</b>	<b>March 31, 2022 (unaudited)</b>	<b>March 31, 2021 (unaudited)</b>
<b>Net cash flows provided by operating activities</b>		₩ 202,848,888,441	₩ 137,205,280,497
Cash generated from operations	24	292,624,285,872	232,504,836,738
Income taxes paid		(89,775,397,431)	(95,299,556,241)
<b>Net cash flows used in investing activities</b>		(261,608,040,901)	(58,605,734,766)
Interest received		3,323,123,062	2,780,657,298
Dividends received		5,005,054,796	3,501,017,709
Decrease in other financial assets		222,045,470,698	179,181,175,054
Decrease in current financial assets measured at fair value through profit or loss		-	79,446,632,858
Decrease in long-term financial assets measured at fair value through profit or loss		-	600,000,000
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		7,200,000,000	-
Disposal of property, plant and equipment		672,849,676	1,220,727,683
Disposal of investment properties		-	413,670,211
Disposal of assets held for sale		48,309,728,412	416,343,285
Disposal of investments in associates and joint ventures		12,278,711,553	-
Collection of loans		4,888,578,573	3,861,436,773
Collection of guarantee deposits		99,079,108	68,166,997
Collection of finance lease receivables		-	33,020,364
Increase in other financial assets		(311,000,047,849)	(197,000,000,000)
Increase in current financial assets measured at fair value through profit or loss		(104,642,379,670)	-
Increase in long-term financial assets measured at fair value through profit or loss		(3,662,228,000)	(854,500,000)
Increase in long-term deposits in MSA Escrow Fund		(76,388,257,551)	(59,574,952,158)
Acquisition of property, plant and equipment		(22,470,571,108)	(55,843,249,914)
Acquisition of intangible assets		(4,582,189,275)	(7,591,976,992)
Acquisition of investment properties		(4,209,337,342)	(3,954,902,003)
Acquisition of right-of-use assets		(338,279,938)	(2,453,464)
Acquisition of investments in associates and joint ventures		(29,488,895,600)	-
Increase in loans		(7,419,325,358)	(5,285,637,338)
Increase in guarantee deposits		(1,229,125,088)	(20,911,129)
<b>Net cash flows provided by (used in) financing activities</b>		9,791,985,244	(601,529,889)
Interest paid		(788,391,203)	(1,051,962,646)
Repayment of lease liabilities		(4,975,070,151)	(5,450,025,643)
Repayment of borrowings		(30,165,693,632)	(16,602,728,085)
Increase in borrowings		45,721,140,230	22,503,186,485
<b>Net increase (decrease) in cash and cash equivalents</b>		(48,967,167,216)	77,998,015,842
<b>Cash and cash equivalents at the beginning of the period</b>		946,570,845,404	1,253,611,491,485
Effect of exchange rate fluctuation on cash and cash equivalents		(1,007,949,841)	(17,293,351,618)
<b>Cash and cash equivalents at the end of the period</b>		₩ 896,595,728,347	₩ 1,314,316,155,709

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

**KT&G Corporation and Subsidiaries**  
**Notes to the Consolidated Interim Financial Statements**  
**March 31, 2022 and 2021 (Unaudited)**



**1. Reporting Entity**

**1.1 Overview of the Parent Company**

KT&G Corporation (the "Parent Company") is engaged in manufacturing and selling tobaccos. As of March 31, 2022, the Parent Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 121 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

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

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

The Parent Company's major shareholders as of March 31, 2022, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	11,061,966	8.06
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,045,946	2.95
Treasury shares	17,312,574	12.61
Others	95,361,526	69.45
	137,292,497	100.00

**KT&G Corporation and Subsidiaries**  
**Notes to the Consolidated Interim Financial Statements, Continued**  
**March 31, 2022 and 2021 (Unaudited)**



**1.2 Consolidated Subsidiaries**

Consolidated subsidiaries as of March 31, 2022 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) <sup>1</sup>	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	March 31, 2022	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	March 31, 2022	Korea
	Tae-a Industry Co., Ltd.	Manufacturing tobacco materials	100.00	March 31, 2022	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	March 31, 2022	Turkey
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	March 31, 2022	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	March 31, 2022	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	March 31, 2022	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	March 31, 2022	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	March 31, 2022	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	March 31, 2022	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	March 31, 2022	Indonesia
	SangSang Stay Inc.	Hotel	100.00	March 31, 2022	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	March 31, 2022	Russia
	Gwacheon SangSang PFV Inc.	Developing and selling real estate	51.00	March 31, 2022	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	March 31, 2022	Taiwan
	Mastern No. 144 PFV Co. Ltd.	Developing and selling real estate	92.50	March 31, 2022	Korea
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	March 31, 2022	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	March 31, 2022	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	March 31, 2022	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	March 31, 2022	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	March 31, 2022	USA
	Korea Ginseng Corp. China	Selling ginseng, etc.	100.00	March 31, 2022	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	March 31, 2022	Japan
Cosmococ Co., Ltd.	K&I HK Co., Ltd.	Selling cosmetics, etc.	98.56	March 31, 2022	HongKong
	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	March 31, 2022	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	March 31, 2022	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	March 31, 2022	Indonesia

<sup>1</sup>The percentage of ownership, shown above, is on a consolidated basis.

The Parent 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.

The Parent Company has acquired 6,978,948 shares (₩25,291 million) of Renzoluc Pte., Ltd. during the year ended December 31, 2021, through a purchase of shares.

The Parent Company has acquired 250,000 shares (₩287 million) of its subsidiary, Cosmococ Co., Ltd., during the year ended December 31, 2021, through a capital increase with consideration.



## **2. Significant Accounting Policies**

### **(1) Basis of Preparation**

The consolidated interim financial statements of KT&G Corporation and Subsidiaries (the Group, herein) have been prepared in accordance with KIFRS 1034 *Interim Financial Reporting*.

The Group's consolidated interim financial statements should be read in conjunction with its year-end consolidated financial statements, since the consolidated interim financial statements do not include all information and notes which are required for the year-end consolidated financial statements.

### **(2) New and amended standards and interpretations adopted by the Group**

The Group does not have a history of early adoption of new accounting standards and interpretations that have been published but which are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time for the 2022 reporting period. As of March 31, 2022, these amendments and interpretations do not have a significant impact on the interim financial statements.

#### ***(a) Amendments to KIFRS 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.

#### ***(b) Amendments to KIFRS 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 KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

#### ***(c) Amendments to KIFRS 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.

*(d) Amendments to KIFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters*

The amendments allow subsidiaries that have elected to adopt paragraph D16 (1) of KIFRS 1101 to measure the accumulated foreign currency translation differences using the amount that the parent company has reported on the date of the parent company's adoption of KIFRS.

*(e) Amendments to KIFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

*(f) Amendments to KIFRS 1041 Agriculture – Measuring fair value*

The amendments removed the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041 *Agriculture*.

**(3) Significant Accounting Policies**

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2021, except for the changes due to the application of amendment and enactments of standards described in Note 2.2 and the one described below.

*(a) Income Tax Expense*

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

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### 3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimates may not equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these consolidated interim financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2021, except for the estimates used to determine income tax expense.

### 4. Operating Segment

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

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

(b) Segment information on sales and operating profit for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	March 31, 2022						
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 890,331	₩ 434,039	₩ 128,028	₩ 71,761	₩ 1,524,159	₩ (121,592)	₩ 1,402,567
Intersegment sales	(62,517)	(37,206)	(18,908)	(2,961)	(121,592)	121,592	-
External sales	827,814	396,833	109,120	68,800	1,402,567	-	1,402,567
Operating profit (loss) <sup>2</sup>	245,853	35,695	54,804	(2,477)	333,875	(5,384)	328,491

<sup>1</sup>Profit (loss) from discontinued operations is included (see Note 25).

<sup>2</sup>Other income or expenses items not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

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(in millions of Korean won)

March 31, 2021

	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 782,157	₩ 440,211	₩ 108,693	₩ 61,329	₩ 1,392,390	₩ (128,489)	₩ 1,263,901
Intersegment sales	(82,306)	(37,213)	(7,435)	(1,535)	(128,489)	128,489	-
External sales	699,851	402,998	101,258	59,794	1,263,901	-	1,263,901
Operating profit (loss) <sup>2</sup>	218,281	58,456	44,095	(3,981)	316,851	831	317,682

<sup>1</sup>Profit (loss) from discontinued operations is included (see Note 25).

<sup>2</sup>Other income or expenses items not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

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

(in millions of Korean won)

March 31, 2022

March 31, 2021

Revenue recognized at a point in time:

	Wholesale, retail	₩	792,335	₩	634,685
Tobacco	Direct sales		35,479		9,313
	Discontinued operations		-		55,853
Ginseng	Wholesale, retail		196,730		199,813
	Direct sales		200,103		203,185
Others	Wholesale, retail		65,580		52,733
	Direct sales		3,220		7,061
	Subtotal		1,293,447		1,162,643

Revenue recognized over time:

Real estate	Sales and rental		109,120		101,258
	Total	₩	1,402,567	₩	1,263,901



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(d) Segment information on assets and liabilities as of March 31, 2022 and December 31, 2021 are as follows:

		March 31, 2022					
		Tobacco	Ginseng	Real estate	Others	Segment total	Consolidated
<i>(in millions of Korean won)</i>							
Assets:							
Segment assets	₩	5,500,344	2,037,519	1,338,626	261,459	9,137,948	₩ 6,883,234
Investments in associates and joint ventures		-	-	286,007	4,381	290,388	290,388
Assets held for sale		25,806	-	-	-	25,806	25,415
Subtotal	₩	5,526,150	2,037,519	1,624,633	265,840	9,454,142	7,199,037
Common assets							4,612,925
Total assets							11,811,962
Acquisition of non-current assets	₩	29,749	8,620	1,832	2,166	42,367	49,903
Liabilities:							
Segment liabilities	₩	1,897,687	185,429	121,762	133,817	2,338,695	1,716,072
Common liabilities							1,182,839
Total liabilities							₩ 2,898,911
<i>(in millions of Korean won)</i>							
		December 31, 2021					
		Tobacco	Ginseng	Real estate	Others	Segment total	Consolidated
Assets:							
Segment assets	₩	5,356,142	2,150,747	1,379,475	257,294	9,143,658	₩ 6,992,680
Investments in associates and joint ventures		-	-	238,592	4,400	242,992	242,992
Assets held for sale		14,901	5,440	-	-	20,341	20,124
Subtotal	₩	5,371,043	2,156,187	1,618,067	261,694	9,406,991	7,255,796
Common assets							4,381,475
Total assets							11,637,271
Acquisition of non-current assets	₩	209,329	166,752	86,087	21,813	483,981	390,430
Liabilities:							
Segment liabilities	₩	1,958,575	202,057	90,547	141,388	2,392,567	1,869,207
Common liabilities							559,202
Total liabilities							₩ 2,428,409

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

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(e) Geographical information determined by customer's location for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	March 31, 2022			March 31, 2021		
	Korea	Overseas	Total	Korea	Overseas <sup>1</sup>	Total
Sales	₩ 980,417	₩ 422,150	₩ 1,402,567	₩ 963,694	₩ 300,207	₩ 1,263,901
Non-current assets	2,942,554	100,393	3,042,947	2,837,668	128,966	2,966,634

<sup>1</sup>Overseas sales ₩55,853 million, classified as profit or loss from discontinued operations for the three-month period ended March 31, 2021 is included.

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

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

## 5. Trade and Other Receivables

(a) Trade and other receivables as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	March 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,086,067	₩ -	₩ 904,504	₩ -
Loans	18,174	62,246	17,123	60,827
Other receivables	66,607	3,487	39,855	3,612
Guarantee deposits	47,159	33,258	48,775	30,170
Accrued income	3,262	17	2,484	151
Total	₩ 1,221,269	₩ 99,008	₩ 1,012,741	₩ 94,760

(b) Allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	March 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,301,895	₩ 99,323	₩ 1,091,383	₩ 95,125
Allowances:				
Trade receivables	(79,676)	-	(77,675)	-
Other receivables	(950)	(315)	(967)	(365)
Total allowances	(80,626)	(315)	(78,642)	(365)
Net trade and other receivables	₩ 1,221,269	₩ 99,008	₩ 1,012,741	₩ 94,760

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(c) Changes in allowance for doubtful accounts in relation to trade and other receivables as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>December 31, 2021</b>
Beginning balance	₩	79,007	₩	87,776
Loss (reversal) of impairment <sup>1</sup>		138		(1,305)
Write off		(37)		-
Net exchange difference		1,833		202
Ending balance	₩	80,941	₩	86,673

<sup>1</sup>Impairment loss classified as profit or loss from discontinued operations of ₩214 million and ₩42 million are included for the three-month periods ended March 31, 2022 and 2021, respectively.

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

## 6. Inventories

(a) Inventories as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>			<b>December 31, 2021</b>		
		<b>Acquisition cost</b>	<b>Valuation loss allowance</b>	<b>Carrying amount</b>	<b>Acquisition cost</b>	<b>Valuation loss allowance</b>	<b>Carrying amount</b>
Merchandise	₩	38,704	₩ (2,293)	₩ 36,411	₩ 57,930	₩ (2,609)	₩ 55,321
Finished goods		328,564	(35,357)	293,207	369,572	(37,102)	332,470
Half-finished goods and work in progress		991,250	(3,232)	988,018	1,041,928	(3,881)	1,038,047
Raw materials		837,743	(8,550)	829,193	830,469	(8,671)	821,798
Supplies		50,637	-	50,637	51,331	-	51,331
By-products		5,907	-	5,907	6,551	-	6,551
Buildings under construction		7,401	-	7,401	5,926	-	5,926
Completed buildings		1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate		20,713	-	20,713	24,416	-	24,416
Goods in transit		27,464	-	27,464	36,395	-	36,395
Total	₩	2,309,873	₩ (49,432)	₩ 2,260,441	₩ 2,427,644	₩ (52,263)	₩ 2,375,381

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(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month periods March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Cost of sales:				
Loss (reversal) on valuation of inventories <sup>1</sup>	₩	(3,167)	₩	(38)
Loss on obsolescence of inventories		2,880		2,545
Other expense:				
Loss on obsolescence of inventories		11		339
<b>Total</b>	<b>₩</b>	<b>(276)</b>	<b>₩</b>	<b>2,846</b>

<sup>1</sup>Loss (reversal) on valuation of inventories classified as profit or loss from discontinued operations of (-) ₩64 million and ₩18 million are included for the three-month periods ended March 31, 2022 and 2021, respectively.

## 7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures as of March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩	242,992	₩	132,187
Acquisition		29,489		121
Disposal		(12,279)		-
Shares of net profit or loss		13,966		21
Dividends		(793)		(18)
Changes in Equity		(1)		-
Reclassification <sup>1</sup>		17,014		-
<b>Ending balance</b>	<b>₩</b>	<b>290,388</b>	<b>₩</b>	<b>132,311</b>

<sup>1</sup>For the three-month period ended March 31, 2022, KOCREF 41 REIT is reclassified as investment in associates from financial assets at fair value through other comprehensive income, and KORAMCO Amsa PFV Co., Ltd. is reclassified as assets held for sale from investment in associates (see Note 21).

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**8. Property, Plant and Equipment**

Changes in property, plant, and equipment for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩	1,741,042	₩	1,718,412
Acquisition		25,829		51,133
Disposal/Impairment		(116)		(84)
Amortisation <sup>1</sup>		(39,973)		(38,697)
Reclassification and others		40,408		1,461
Ending balance	₩	1,767,190	₩	1,732,225

<sup>1</sup>Depreciation expense (₩79 million for the three-month period ended March 31, 2021) classified as profit of loss from a discontinued operation is included.

**9. Intangible Assets**

Changes in intangible assets for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩	145,719	₩	134,084
Acquisition		12,599		7,573
Disposal/Impairment		(401)		(35)
Amortisation		(3,815)		(3,609)
Reclassification		510		449
Ending balance	₩	154,612	₩	138,462



## 10. Investment Property

Changes in investment property for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩	1,150,980	₩	1,030,179
Acquisition		4,807		3,990
Disposal/Impairment		-		(408)
Amortisation		(4,975)		(5,435)
Reclassification		(65,257)		21,182
Ending balance	₩	1,085,555	₩	1,049,508

## 11. Right-of-use Assets

Changes in right-of-use assets for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩	36,445	₩	49,088
Acquisition		6,666		3,010
Disposal		(1,506)		(178)
Amortisation <sup>1</sup>		(6,019)		(6,002)
Reclassification		5		521
Ending balance	₩	35,591	₩	46,439

<sup>1</sup>Depreciation Expense (₩380 million for the three-month period ended March 31, 2021) classified as profit or loss from discontinued operations is included.

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**12. Assets and Liabilities Held for Sale**

Changes in assets held for sale for the three-month periods ended March 31, 2022 and 2021 are as follows:

*(in millions of Korean won)*

	<b>March 31, 2022</b>		<b>March 31, 2021</b>
Beginning balance	₩ 20,124	₩	2,681
Disposal	(18,341)		(604)
Reclassification and others <sup>1</sup>	23,632		(77)
Ending balance	₩ 25,415	₩	2,000

<sup>1</sup>Consist of ₩22,647 million reclassified from investment property and ₩985 million reclassified from investment in associates (₩77 million of exchange differences on translation foreign operations for the three-month period ended March 31, 2021)

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**13. Borrowings**

(a) Short-term borrowings as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Borrowings			FTP+0.984~1.2	₩ 17,600	₩ 4,000
		Hana Bank	Bank Debenture (6 months)+1.62~2.308	3,000	3,000
			3.5	8,000	8,000
		Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	5,428	5,344
		KB Kookmin Bank	3.5	40,000	40,000
		Shinhan Bank	Bank Debenture (6 months)+1.62	10,000	10,000
			Internal interest rate+1.12	-	1,000
		Korea Development Bank	Industrial Financial Debenture (1 year)+1.15	7,000	3,500
		Subtotal		91,028	74,844
Consumer credit agreements <sup>1</sup>		NH Nonghyup Bank	-	393	437
		Hana Card	-	143	152
		Subtotal		536	589
Total				₩ 91,564	₩ 75,433

<sup>1</sup>The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.

(b) Current portion of long-term borrowings and long-term borrowings as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>Lender</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Other financial loan for working capital		NH Nonghyup Bank	2023.05.30~ 2026.06.30	-	₩ 51,969	₩ 51,569
				MOR(6 months) +1.03	1,650	1,925
Borrowings		KB Kookmin Bank	2023.09.11	MOR(6 months) +1.58	1,600	1,867
Total					55,219	55,361
Consolidated statements of financial position:						
Current					2,166	2,166
Non-current					53,053	53,195
Total					₩ 55,219	₩ 55,361

(c) As discussed in Note 23 (c) of consolidated financial statements, the Group is providing collateral for the above borrowings.



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**14. Employee Benefits**

(a) Profit or loss recognized related to employee benefits for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Defined benefit plans:		
Current service cost	₩ 12,933	₩ 13,902
Net interest on net defined benefit liabilities (assets)	276	514
Subtotal	<u>13,209</u>	<u>14,416</u>
Defined contribution plan:		
Contributions recognized as expense	2,112	2,329
Other long-term employee benefits:		
Current service cost, etc.	1,423	1,046
Termination benefits:		
Voluntary retirements, etc.	2,214	1,732
Total	<u>₩ 18,958</u>	<u>₩ 19,523</u>

(b) Net defined benefit liabilities (assets) as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Present value of defined benefit obligations	₩ 589,471	₩ 585,308
Fair value of plan assets	(533,235)	(538,708)
Total	<u>₩ 56,236</u>	<u>₩ 46,600</u>

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**15. Refund Liabilities and Provisions**

(a) Refund liabilities and provisions as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	March 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 4,809	₩ -	₩ 4,915	₩ -
Refund liabilities	13,216	3,630	14,340	3,367
Provision for site restoration	6,255	890	3,497	1,604
Provision for financial guarantee	-	222	21	250
Provision for greenhouse gases	152	-	269	-
Provision for others	1,868	2	3,089	1
Total	₩ 26,300	₩ 4,744	₩ 26,131	₩ 5,222

(b) Changes in refund liabilities and provisions as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	March 31, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ 342	₩ (448)	₩ 4,809
Refund liabilities	17,707	1,626	(2,487)	16,846
Provision for site restoration	5,101	2,056	(12)	7,145
Provision for financial guarantee	271	-	(49)	222
Provision for greenhouse gases	269	-	(117)	152
Provision for others	3,090	111	(1,331)	1,870
Total	₩ 31,353	₩ 4,135	₩ (4,444)	₩ 31,044

(in millions of Korean won)

	December 31, 2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 2,041	₩ (732)	₩ 5,773
Refund liabilities	11,243	1,508	(2,210)	10,541
Provision for site restoration	13,476	311	(3,585)	10,202
Provision for financial guarantee	622	-	(87)	535
Provision for greenhouse gases	178	16	-	194
Provision for others	718	34	-	752
Total	₩ 30,701	₩ 3,910	₩ (6,614)	₩ 27,997

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**16. Real Estate Pre-sales Contract**

(a) Details of ongoing real estate pre-sales contracts for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

March 31, 2022								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>1</sup>	Cost (cumulative) <sup>2</sup>
Suwon hwaseo prugio briciel	June 2020	September 2023	40.72	₩ 791,406	₩ 750,989	₩ 305,835	₩ 60,960	₩ 137,516
Gwacheon sangsang Xi tower B	January 2021	May 2023	42.41	239,568	239,568	100,541	25,288	56,289
Total				₩ 1,030,974	₩ 990,557	₩ 406,376	₩ 86,248	₩ 193,805

<sup>1</sup>Excludes sales revenue of Suwon Hwaseo Park Prugio, ₩4,203 million due to the fact that the construction has been completed and pre-sales contract is in progress.

<sup>2</sup>Excludes cumulative costs of ₩970 million for common infrastructure.

(in millions of Korean won)

March 31, 2021								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>1</sup>
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	81.22	₩ 1,188,429	₩ 1,186,566	₩ 963,758	₩ 51,773	₩ 403,749
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	80.49	112,056	106,493	84,475	4,366	51,636
Suwon hwaseo prugio briciel	June 2020	September 2023	11.21	791,434	751,016	84,173	21,948	37,778
Gwacheon sangsang Xi tower B	January 2021	May 2023	2.8	239,568	239,568	6,708	6,708	3,887
Total				₩ 2,331,487	₩ 2,283,643	₩ 1,139,114	₩ 84,795	₩ 497,050

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

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(b) Receivables and payables for ongoing real estate pre-sales contracts as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

Construction project	March 31, 2022			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo prugio briciel	₩ 305,835	₩ 228,284	₩ 81,772	₩ 4,221
Gwacheon sangsang Xi tower B	100,541	70,811	29,730	-
Total	₩ 406,376	₩ 299,095	₩ 111,502	₩ 4,221

(in millions of Korean won)

Construction project	December 31, 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 briciel	244,875	227,360	20,715	3,200
Gwacheon sangsang Xi tower B	75,253	71,252	4,001	-
Total	₩ 1,699,263	₩ 1,663,398	₩ 40,406	₩ 4,541

(c) No Material changes in estimated total contract revenues and total contract costs have occurred for the three-month periods ended March 31, 2022. 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 March 31, 2022 and subject to change in the future.

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**17. Selling and Administrative Expenses**

Selling, general and administrative expenses for the three-month periods ended March 31, 2022 and 2021 are as follows:

*(in millions of Korean won)*

		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Salaries	₩	118,900	₩	112,663
Retirement and termination benefits		11,702		12,361
Employee welfare		18,193		13,263
Travel expenses		2,734		1,527
Communication cost		1,473		1,426
Utilities		3,335		3,379
Taxes and dues		2,864		2,855
Supplies		1,309		1,507
Rent		4,803		3,649
Depreciation		15,520		15,024
Amortization		3,758		3,568
Repairs and maintenance		919		1,137
Vehicles		1,700		1,493
Insurance		966		1,671
Commissions		112,395		110,225
Freight and custody		17,246		16,210
Conferences		664		523
Advertising		71,303		56,158
Education and training		1,115		1,243
Prizes and rewards		292		391
Cooperation		396		291
Research and development		8,562		15,965
Impairment loss(reversal) on trade receivables		200		(1,217)
<b>Total</b>	₩	<b>400,349</b>	₩	<b>375,112</b>

<sup>1</sup>Includes profit (loss) in relation to discontinued operations for the three-month periods ended March 31, 2022 and 2021 of ₩4,516 million and ₩9,654 million respectively.

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**18. Other Income and Expense**

(a) Other income for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Gain on foreign currency transaction	₩ 7,077	₩ 7,717
Gain on foreign currency translation	40,957	65,247
Gain on valuation of derivatives	675	5
Reversal of impairment loss on other receivables	232	88
Gain on disposal of property, plant and equipment	13	158
Gain on disposal of investment property	-	5
Gain on lease contract adjustments	62	30
Gain on disposal of investments in associates and joint ventures	-	122
Gain on disposal of assets held for sale	22,729	-
Miscellaneous income	3,381	1,781
<b>Total</b>	<b>₩ 75,126</b>	<b>₩ 75,153</b>

<sup>1</sup>Profit (loss) relating discontinued operations of ₩692 million and ₩268 million for the three-month periods ended March 31, 2022 and 2021 are included, respectively.

(b) Other expense during three-month periods ended March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Loss on foreign currency transaction	₩ 3,574	₩ 1,613
Loss on foreign currency translation	12,391	9,417
Loss on valuation of derivatives	5,760	11,841
Loss on impairment of other receivables	170	-
Loss on disposal of property, plant and equipment	80	76
Loss on disposal of intangible assets	368	-
Loss on impairment of intangible assets	33	35
Loss on disposal of assets held for sale	1,217	297
Donations	1,379	903
Loss on lease contract adjustments	3	4
Miscellaneous loss	2,637	260
<b>Total</b>	<b>₩ 27,612</b>	<b>₩ 24,446</b>

<sup>1</sup>Profit (loss) relating discontinued operations of ₩550 million for the three-month periods ended March 31, 2022 of is included.

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**19. Finance Income and Costs**

Finance income and costs for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Finance income:				
Interest income <sup>1</sup>	₩	4,520	₩	3,364
Dividend income		8,617		8,757
Gain on valuation of fair value through profit or loss		19,593		8,277
Total finance income	₩	32,730	₩	20,398
Finance cost:				
Interest expense	₩	8,875	₩	2,332
Loss on valuation of fair value through profit or loss		11,747		3,402
Other financial expense		10,300		-
Total finance cost	₩	30,922	₩	5,734
Net finance income	₩	1,808	₩	14,664

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

<sup>2</sup>Losses relating discontinued operation for the three-month period ended March 31, 2021 of ₩63 million is included.

**20. Income Tax Expense and Deferred Tax Asset**

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for the three-month periods ended March 31, 2022 and 2021, are 32.77% and 28.84%, respectively.



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**21. Related Parties**

(a) The Group's related parties as of March 31, 2022 and December 31, 2021 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			March 31, 2022	December 31, 2021
Associates	LitePharmTech, Inc. <sup>1</sup>	Korea	12.88	12.88
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47
	KORAMCO Amsa PFV Co., Ltd. <sup>1,2</sup>	Korea	17.84	17.84
	KOCREF 36 REIT <sup>3</sup>	Korea	21.01	21.01
	KOCREF 41 REIT <sup>4</sup>	Korea	26.47	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Kiwoom Milestone Private REIT No.16 <sup>5</sup>	Korea	45.45	45.50
	Cheong-ra Medi-polis PFV Co., Ltd. <sup>6,7</sup>	Korea	56.74	56.74
	INNODIS CO., Ltd. <sup>1</sup>	Korea	19.64	19.60
	SJ BIO MED Co., Ltd. <sup>1</sup>	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	23.13	23.13
	KORAMCO Europe Private REIT 3-2 Fund <sup>8</sup>	Germany	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00
	KORAMCO Ocheon PFV Co., Ltd. <sup>9</sup>	Korea	-	18.95

<sup>1</sup>It is classified as an investment in associates although the Group's holdings in the invested company are less than 20%. Since it has the right to participate in the invested company's Board of Directors meeting according to the shareholders' agreement, the Group determined that it has significant influence over the invested company.

<sup>2</sup> The Group has reclassified its holdings as assets held for sale, following the resolution of dissolution made at shareholders' meeting.

<sup>3</sup>Because the percentage of ownership increased due to the unequal capital decrease for the year ended December 31, 2021, the Group has acquired its significant influence in the invested company. The Group has reclassified its holdings as an investment in associates.

<sup>4</sup>Because the percentage of ownership increased due to the disproportionate capital decrease for the three-month period ended March 31, 2022, the Group has acquired its significant influence on the investee. The Group has reclassified its holdings as an investment in associates.

<sup>5</sup>It is reclassified as an investment in associates since the Group reassessed that it has significant influence over the invested company for the year ended December 31, 2021.

<sup>6</sup>Due to an establishment of capital investment for the year ended December 31, 2021, the Group has acquired its significant influence in the invested company. The Group has classified its holdings as an investment in associates.

<sup>7</sup>The Group classified such holdings as an investment in associates since decisions on significant financial, operating policies of the investee are to be made with more than three fourths of Board of Directors in accordance with investment agreement.



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<sup>8</sup>It is classified as a joint venture since decisions about the significant financial and operating policies of the investee cannot be made without unanimous consent of the parties that control the arrangement collectively.

<sup>9</sup>Since sales contract was made for the year ended December 31, 2021, it is reclassified as asset held for sale. Also, it is sold to the third party for the three-month period ended March 31, 2022 and has been excluded from the list of related parties, accordingly.

(b) The Group carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2022		March 31, 2021	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	Kiwoom Milestone Private REIT No.16	₩ 793	₩ -	₩ -	₩ -
	INNODIS CO., LTD.	-	434	-	270
Joint ventures	Starfield Suwon, Inc.	-	68	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
	Total	₩ 793	₩ 502	₩ 18	₩ 270

(c) Account balances of receivables and payables with related parties as of March 31, 2022 and December 31, 2021 are summarized as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2022		December 31, 2021	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No.1	₩ -	₩ -	₩ 481	₩ -
	INNODIS CO., LTD.	-	35	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
	Total	₩ -	₩ 35	₩ 499	₩ -

(d) Fund transactions with related parties for the three-month period ended March 31, 2022 is as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2022	
		Equity investment	Equity recovery
Associates	KOCREF 41 REIT	₩ 29,489	₩ (12,279)
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>	-	(24,353)
	Total	₩ 29,489	₩ (36,632)

<sup>1</sup>Since sales contract was made for the year ended December 31, 2021, it is reclassified as asset held for sale. Also, it is sold to the third party for the three-month period ended March 31, 2022 and has been excluded from the list of related parties, accordingly.

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- (e) There are no payment guarantees provided between or among the related parties.
- (f) The Group is currently operating Starfield Suwon Inc. after establishing the joint venture under 50:50 ratio with Shinsegae Property. The disposal of such share is limited for five years from the approval for use of the multi-shopping mall. In the event that the Group or the joint venture intend to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.
- (g) The Group has entered into a contribution agreement for equity instruments of Cheong-ra mediopolis PFV Co., Ltd., an associate, with the limit of ₩101,000 million. As of March 31, 2022, the outstanding amount 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.
- (h) Upon disposal of the equity shares of Gwacheon SangSang PFV. Inc., unanimous consent of the other shareholders is required.
- (i) The Group has entered into a capital call agreement with KORAMCO Europe Private REIT 3-2 Fund. However, the Group expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.
- (j) The Group 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 Group dispose of shares by obtaining approval from Board of Directors and at Shareholders Meeting, the Group 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 Group.
- (k) Key management personnel compensation for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2022	March 31, 2021
Short-term and long-term employee benefits	₩	5,222	₩ 6,163
Retirement benefits		592	602
Total	₩	5,814	₩ 6,765

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

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

### **(a) Market risk**

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and prices of equity securities – will affect the fair value or future cash flow of the Group's financial instruments. The Group manages and controls market risk exposures within the acceptable limits, while optimizing the revenue.

#### **① Currency risk**

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

#### **② Price risk**

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

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the variable interest rate liabilities of the Group as of March 31, 2022, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

(b) Credit risk

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

As of March 31, 2022 and December 31, 2021, the carrying amount of a financial asset indicates the maximum exposure to credit risk.

(c) Liquidity risk

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

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(d) The carrying amounts of each category of financial instruments as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		March 31, 2022		December 31, 2021
Financial assets:				
Financial assets fair value through profit or loss <sup>1</sup>	₩	1,843,659	₩	1,683,359
Financial assets fair value through other comprehensive income or loss		214,761		228,398
Derivative assets		675		580
Financial assets measured at amortized cost				
Cash and cash equivalents <sup>1</sup>		439,288		533,412
Other financial assets		554,991		466,058
Trade and other receivables		1,320,277		1,107,501
Long-term deposits		1,354,168		1,250,468
Subtotal		3,668,724		3,357,439
Total financial assets	₩	5,727,819	₩	5,269,776
Financial liabilities:				
Derivative liabilities	₩	1,505	₩	908
Financial liabilities measured at amortized cost				
Short-term borrowings		91,564		75,433
Current portion of long-term borrowings		2,166		2,166
Long-term borrowings		53,053		53,195
Trade and other payables		1,142,014		603,833
Lease liabilities		34,138		36,558
Liabilities for non-controlling interests		6,049		18,317
Subtotal		1,328,984		789,502
Total financial liabilities	₩	1,330,489	₩	790,410

<sup>1</sup>As of March 31, 2022, money market trust worth ₩457,308 million (December 31, 2021: ₩413,159 million) included in cash equivalents are classified as the financial assets measured at fair value through profit or loss.

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

	Inputs used
Level 1	Unadjusted quoted price in an active market accessible at the measurement date for the same asset or liability
Level 2	Inputs that are observable directly or indirectly for an asset or liability other than the quoted price of Level 1
Level 3	Unobservable inputs for an asset or liability

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The fair value measurements classified by fair value hierarchy as of March 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	Carrying amount	March 31, 2022		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 1,843,659	₩ -	₩ 1,550,191	₩ 293,468
Fair value through other comprehensive income or loss	214,761	211,032	-	3,729
Derivative assets	675	-	675	-
Total financial assets	₩ 2,059,095	₩ 211,032	₩ 1,550,866	₩ 297,197
Derivative liabilities	₩ 1,505	₩ -	₩ 1,505	₩ -

<sup>1</sup>As of March 31, 2022, money market trust worth ₩457,308 million included in cash equivalents are classified as the financial assets measured at fair value through profit or loss.

(in millions of Korean won)

	Carrying amount	December 31, 2021		
		Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss <sup>1</sup>	₩ 1,683,359	₩ -	₩ 1,395,963	₩ 287,396
Fair value through other comprehensive income or loss	228,398	196,312	-	32,086
Derivative assets	580	-	580	-
Total financial assets	₩ 1,912,337	₩ 196,312	₩ 1,396,543	₩ 319,482
Derivative liabilities	₩ 908	₩ -	₩ 908	₩ -

<sup>1</sup>As of December 31, 2021, money market trust worth ₩413,159 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There is no movement between levels of the fair value hierarchy for the three-month periods ended March 31, 2022 and 2021.

As of March 31, 2022 and December 31, 2021, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income of 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.

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The changes in Level 3 fair value for the three-month ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	March 31, 2022		March 31, 2021	
Beginning balance	₩	319,482	₩	282,226
Acquisition		3,662		854
Disposal		-		(600)
Transfers		(28,300)		-
Changes in fair value		2,353		(778)
Ending balance	₩	297,197	₩	281,702

(f) Net gains or losses by category of financial instruments for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	March 31, 2022					
	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	₩ -	₩ -	₩ -	₩ 4,520	₩ -	₩ 4,520
Dividend income	2,586	6,031	-	-	-	8,617
Gain or loss on valuation	7,847	-	(5,086)	-	-	2,761
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(8,875)	(8,875)
Impairment loss	-	-	-	(138)	-	(138)
Gain or loss on lease contract adjustments	-	-	-	-	58	58
Total	₩ 10,433	₩ (4,269)	₩ (5,086)	₩ 4,382	₩ (8,817)	₩ (3,357)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 21,863	₩ -	₩ -	₩ -	₩ 21,863

(in millions of Korean won)

	March 31, 2021					
	Fair value through profit or loss	Fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 3,364	₩ -	₩ 3,364
Dividend income	2,178	6,579	-	-	-	8,757
Gain or loss on valuation	4,875	-	(11,836)	-	-	(6,961)
Interest expense	-	-	-	-	(2,332)	(2,332)
Reversal of impairment loss	-	-	-	1,305	-	1,305
Gain or loss on lease contract adjustments	-	-	-	-	26	26
Total	₩ 7,053	₩ 6,579	₩ (11,836)	₩ 4,669	₩ (2,306)	₩ 4,159
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 16,190	₩ -	₩ -	₩ -	₩ 16,190

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**23. Contingent Liabilities and Commitments**

(a) Litigation cases

As of March 31, 2022, the Group has 19 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩82,172 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of March 31, 2022, on the consolidated financial statements of the Group.

(b) Commitments with financial institutions

Major commitments of the Group with financial institutions as of March 31, 2022 are as follows:

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

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank	USD	110,300
Derivatives trading <sup>1</sup>	KB Kookmin Bank and four others	USD	338,500
Trade receivables factoring agreement	Hana Bank	KRW	5,000
Discount of notes	Korea Development Bank	KRW	8,000
Others	Korea Development Bank and five others	KRW	205,833
	Hana Bank Bahrain branch	USD	5,500

<sup>1</sup>Derivatives are composed of foreign exchange forward contracts and are held for trading as of March 31, 2022.

As of March 31, 2022, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 119,140 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes etc.



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(c) Payment guarantees and collateral

Payment guarantees and collateral provided by other parties to the Group as of March 31, 2022 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	18,346	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,640	Escrow deposit guarantee
Liberty Mutual and two others	USD	640	Payment guarantees on license bond
Garanti Bank	TRY	2,508	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves.

As of March 31, 2022, KT&G USA Corporation is being provided with a payment guarantee from the Federal Insurance Company (Executed amount: nil) for custom clearance. The Group has a recourse responsibility up to a limit of USD 125,000 thousand to the Federal Insurance Company and others.

Payment guarantees provided by the Group for other parties as of March 31, 2022 are as follows:

*(in millions of Korean won)*

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon hwaseo prugio briecl	Shinhan Bank	76,720	25,532	Loan guarantee for the intermediate payment of off-plan sales construction
Agency registered in Korea Special Sales Financial Cooperative Association	Korea Special Sales Financial Cooperative Association	909	-	Payment guarantee for deductibles and others of Donghae branch

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

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Assets pledged as collateral as of March 31, 2022 are as follows:

<i>(in millions of Korean won)</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 26,191	₩ 3,251	₩ 15,600	KB Kookmin Bank	Current portion of long-term and long term borrowings
	17,236	13,000	24,000	Hana Bank and one other	Short-term borrowings
	31,143	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment property	478,476	26,709	27,939	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	81,424	48,000	57,600	KB Kookmin bank and one other	Short-term borrowings
Other financial assets	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Investments in associates and joint ventures	5,306	90,000	5,306	Hyundai Marine & Fire Insurance Co., Ltd & NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd.
Total	₩ 650,683	₩ 181,557	₩ 143,752		

Bills and cheques provided as collateral by the Group in relation to borrowings, etc., as of March 31, 2022 are as follows:

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

As of March 31, 2022, other than explained above, 11 notes and two cheques with unknown origin and face amount are lost, and the Group will proceed with the authorization process for these bills.

Restricted financial assets as of March 31, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2022	December 31, 2021
Other financial assets	Establishment of a pledge to guarantee real estate development	₩ 10,310	₩ 10,310
	Establishment of a pledge for leasehold	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Security deposits for checking accounts, etc.	55	55
Cash and cash equivalents	Establishment of a pledge to savings	1,680	1,680
	Total	₩ 112,642	₩ 112,642

(d) Others

Each year, the Group deposits a certain proportion of sales of tobacco products sold in the United States in accordance with the Tobacco Master Settlement Agreement ("MSA") under the Escrow Statute of the US state government. In accordance with the Escrow Statute, in the event that tobacco consumers suffer adverse damages as a result of illegal activities by the Group, which in turn lead to the medical finances of US state governments being used, the deposit in the MSA Escrow Fund may be incorporated into the state government's medical finances. The unused portion of the fund will be refunded to the Group after 25 years from the date of each deposit. The Group has recognized ₩1,354,168 million as of March 31, 2022 (As of December 31, 2021: ₩1,250,468 million), as long-term deposits in MSA Escrow Fund and they consist of T-Notes, T-bills and demand deposits.

The Group has maintained a contract with the farmers who grow six-year-old green ginseng for purchasing determined volumes as guarantees and recorded contractual amounts paid to the farmers as long-term advance payments and advance payments in the amount of ₩103,841 million as of March 31, 2022 (As of December 31, 2021: ₩103,841 million) and ₩31,396 million as of March 31, 2022 (As of December 31, 2021: ₩20,564 million), respectively.

As of March 31, 2022, the Group has entered into a management trust agreement with Marriott International Management Company B.V. and has been provided with international public relations services through Global Hospitality Licensing S.A.R.L. Also, the Group has been provided with technical advice by Marriott International Design & Construction Services, Inc.

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

As of March 31, 2022, there is a capital call agreement for overseas real estate funds invested by the Group. However, the Group expects that the arrangement will be substantially less practicable as it will only be executed if the trustee defaults on the currency swap/forward contract.

The Group has entered into an investment agreement for the debt instruments of Smilegate-Newdeal fund and others with the limit of ₩23,000 million in total. As of March 31, 2022, the outstanding contribution amounts to ₩6,438 million, and the detailed schedule for contribution is not determined.

The Group has entered into a contribution agreement for equity instruments of Cheong-ra mediopolis PFV Co., Ltd. an associate, with the limit of ₩101,000 million. As of March 31, 2022, the outstanding amount 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 of Gwacheon SangSang PFV. Inc., unanimous consent of the other shareholders is required.

The Group 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 Group dispose of shares by obtaining approval from Board of Directors and at Shareholders Meeting, the Group 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 Group.

As of March 31, 2022, the Group is being provided with a commitment from GS Engineering & Construction Corp to complete the construction of Gwacheon sangsang Xi tower, and from Daewoo Engineering & Construction Co., Ltd. to complete the construction of Suwon hwaseo prugio briciel. In addition, Daewoo Engineering & Construction Co., Ltd. is being provided with a guarantee from the Engineering Guarantee Insurance Cooperative in connection with the construction in Suwon.

For the period ended March 31, 2022, the Group signed a financial support letter for its subsidiaries, KT&G USA Corporation, PT KT&G Indonesia, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., and Cosmos Co., Ltd. to provide operating funds and other management-related business support.

As of March 31, 2022, tax investigations are under way for subsidiaries in Indonesia (PT Trisakti Purwosari Makmur and PT KT&G Indonesia) and a subsidiary in Turkey (KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.).

As of March 31, 2022, the Group 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 March 31, 2022.

The spread of Covid-19 has a significant impact on the domestic and international economies. This may have a negative impact on productivity decline, sales decrease or delay, and collection of existing receivables, which might subsequently make negative impact on the financial position and financial performance of the Group. The ultimate impact of changes in uncertainty due to Covid-19 on Group's business, financial position and financial performance is unpredictable as of March 31, 2022.

The Group is engaged in manufacturing and selling tobacco in Russia. As of March 31, 2022, the U.S. and others impose economic sanctions on Russia including restriction on SWIFT international payment network, and the ultimate outcome of the impact that such sanctions may have on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of March 31, 2022.

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**24. Cash Flows**

Cash generated from operations for the three-month periods ended March 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2022</b>		<b>March 31, 2021</b>
Profit for the three-month period ended March 31	₩	263,376	₩	272,608
Operating profit from continuing operations		267,750		269,267
Operating profit from discontinued operation		(4,374)		3,341
Adjustments:				
Employee welfare		1,621		1,216
Retirement benefits		13,209		13,662
Loss(reversal) on valuation or obsolescence of inventories		(276)		2,846
Depreciation		50,967		50,134
Amortization		3,815		3,609
Loss(reversal) in impairment of trade and other receivables		138		(1,305)
Loss on foreign currency translation		12,391		9,417
Loss on valuation of derivatives		5,760		11,841
Loss on disposal of property, plant and equipment		80		76
Loss on disposal of intangible assets		368		-
Loss on impairment of intangible assets		33		35
Loss on disposal of assets held for sale		1,218		297
Other expenses, etc.		1,619		243
Finance cost		30,922		5,734
Income tax expense		128,403		110,465
Gain on foreign currency translation		(40,957)		(65,247)
Gain on valuation of derivatives		(675)		(5)
Gain on disposal of property, plant and equipment		(13)		(158)
Gain on disposal of investment property		-		(5)
Gain on disposal of assets held-for-sale		(22,729)		-
Gain on disposal of investments in associates and joint ventures		-		(122)
Other income, etc.		(1,407)		150
Finance income		(32,730)		(20,398)
Increase of investments in associates and joint ventures due to share of net gain/loss		(13,966)		(21)
Changes in working capital:				
Decrease in trade and other receivables		(159,982)		(189,521)
Decrease (increase) in derivatives		(4,583)		3,986
Decrease in inventories		116,056		23,009
Decrease (increase) in accrued tobacco excise and other taxes		120,786		(17,561)
Decrease in advance payments		(17,180)		(13,054)
Decrease (increase) in prepaid expenses		6,420		(12,727)
Increase in trade and other payables		30,759		15,469
Increase (decrease) in advance receipts		(26,062)		9,485
Increase (decrease) in tobacco excise and other taxes		(168,687)		30,881
Decrease in provision for site restoration		(52)		(3,558)
Decrease in net defined benefit liabilities		(6,018)		(8,976)
Cash generated from operations	₩	<u>292,624</u>	₩	<u>232,505</u>

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**25. Discontinued Operations**

For the year ended December 31, 2021, The Group has discontinued KT&G USA Corporation business as the Group determines that it is necessary to conduct a review of the entire global business strategy including a review of the feasibility of the US business due to intensifying regulations over tobacco and growing competition in the market.

The relevant segment was not classified as discontinued operations as of March 31, 2021. The comparative statements of other comprehensive income are restated to present separated discontinued operations from continuing operations.

**(a) Profit or loss from discontinued operations**

*(in millions of Korean won)*

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Revenue <sup>1</sup>	₩ 692	₩ 56,122
Expenses <sup>2</sup>	(5,066)	(51,548)
Profit (loss) on discontinued operation, before tax	(4,374)	4,574
Income tax expense	-	(1,233)
Profit (loss) on discontinued operation, after tax	(4,374)	3,341
Exchange differences on translating foreign operations	(544)	1,199
Total comprehensive income (loss) on discontinued operation	₩ (4,918)	₩ 4,540

<sup>1</sup>The revenue includes finance income and other income.

<sup>2</sup>The expenses include finance costs and other expenses.

Profit or loss from discontinued operations for the three-month periods ended March 31, 2022 and 2021 are entirely attributed to owners of the Parent Company.

**(b) Cash flows from discontinued operations**

*(in millions of Korean won)*

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Cash flows from operating activities	₩ (11,997)	₩ 5,372
Cash flows from investing activities	7	(85)
Cash flows from financing activities	(304)	(432)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	630	1,182
	₩ (11,664)	₩ 6,037