

KT&G Corporation

Interim Separate Financial Statements

For the six-month period ended June 30, 2022

(Unaudited)

(With the Report on review of interim separate financial statements)



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Report on Review of Interim Separate Financial Statements

(English Translation of a Report Originally Issued in Korean)

Shareholders and the Board of Directors
KT&G Corporation

We have reviewed the accompanying interim separate financial statements of KT&G Corporation (the “Company”), which comprise the interim separate statement of financial position as of June 30, 2022, and the related interim separate statements of comprehensive income for the three-month and six-month periods ended June 30, 2022, interim separate statement of changes in equity and interim separate statement of cash flows for the six-month period ended June 30, 2022, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Interim Separate Financial Statements

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

Auditor’s Responsibility

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

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing (“KSAs”) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Other Matters

The interim separate statements of comprehensive income for the three-month and six-month periods ended June 30, 2021, interim separate statement of changes in equity and interim separate statement of cash flows for the six-month period then ended, prepared in accordance with KIFRS 1034 and presented for comparative purposes, have been reviewed by Samil PricewaterhouseCoopers whose review report dated August 13, 2021 expressed an unqualified review conclusion.

Moreover, the separate statement of financial position of the Company as of December 31, 2021, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended which have been audited by Samil

PricewaterhouseCoopers, in accordance with KSAs (not presented herein), whose report dated March 18, 2022 expressed an unqualified opinion. The accompanying separate statement of financial position as of December 31, 2021, presented for comparative purposes, are not different, in all material respects, from the above audited separate statement of financial position.

August 11, 2022

Ernst & Young Han Young

This review report is effective as of August 11, 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 separate interim financial statements and may result in modifications to this review report.

KT&G Corporation

Interim Separate Financial Statements for the three-month and six-month periods ended June 30, 2022 and 2021

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

Bok-in Baek
Chief Executive Officer
KT&G Corporation

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KT&G Corporation
Interim Separate Statements of Financial Position
As of June 30, 2022 (Unaudited) and December 31, 2021



(in Korean won)

	<u>Notes</u>		<u>June 30, 2022</u>		<u>December 31, 2021</u>
Assets					
Current assets					
Cash and cash equivalents	23	W	767,213,184,707	W	590,603,139,764
Current other financial assets	23,24		178,540,300,000		332,200,000,000
Current financial assets at fair value through profit or loss	23		790,535,093,445		965,384,441,544
Trade and other receivables	5,17,22,23		1,153,665,642,459		788,803,379,227
Derivative assets	23,24		-		580,339,743
Inventories	6		869,842,006,870		924,901,908,672
Refund assets and others			845,114,832		1,549,159,785
Accrued tobacco excise and other taxes			161,597,384,250		307,592,828,809
Advance payments			34,679,937,038		71,669,672,717
Prepaid expenses			8,769,600,215		10,813,947,699
Assets held for sale	13,22		-		14,900,507,758
Total current assets			<u>3,965,688,263,816</u>		<u>4,008,999,325,718</u>
Non-current assets					
Long-term other financial assets	23,24		2,366,920,000		8,707,220,000
Long-term deposits in MSA Escrow Fund	23,24		1,464,335,728,774		1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	23,24		275,525,390,419		298,480,561,239
Long-term trade and other receivables	5,22,23		159,214,089,923		127,671,062,526
Long-term financial assets measured at fair value through other comprehensive income or loss	23,24		169,385,930,760		203,172,444,191
Investments in associates and joint ventures	7,22,24		276,395,497,220		237,986,101,620
Investments in subsidiaries	8,22		1,198,475,027,333		1,201,395,995,281
Property, plant and equipment	9,22		1,081,245,631,940		1,128,957,038,458
Intangible assets	10		112,105,595,486		97,363,311,045
Investment properties	11,24		1,125,684,305,154		1,128,470,409,577
Right-of-use assets	12		21,340,390,381		22,643,611,457
Long-term prepaid expenses			5,794,061,975		6,962,631,226
Deferred tax assets	21		48,658,765,813		49,238,252,507
Net defined benefit assets	15,22		-		11,135,956,233
Total non-current assets			<u>5,940,527,335,178</u>		<u>5,772,652,105,403</u>
Total assets		W	<u>9,906,215,598,994</u>	W	<u>9,781,651,431,121</u>
Liabilities					
Current liabilities					
Short-term borrowings	14,23,24	W	447,092,480	W	588,570,275
Trade and other payables	22,23,24		876,025,860,289		776,356,232,986
Current lease liabilities	22,23		6,404,892,079		7,343,536,299
Derivative liabilities	23,24		14,550,525,151		907,708,348
Advance receipts	17		12,928,224,771		13,104,141,586
Current refund liabilities and provisions	16,24		8,594,135,455		9,903,555,310
Current tax liabilities	21		250,165,783,832		210,773,719,060
Tobacco excise and other taxes payables			631,284,692,051		696,436,408,096
Total current liabilities			<u>1,800,401,206,108</u>		<u>1,715,413,871,960</u>
Non-current liabilities					
Long-term trade and other payables	22,23,24		49,475,111,975		45,879,579,619
Long-term lease liabilities	22,23		13,915,275,135		14,876,074,384
Long-term advance receipts	17		2,831,374,916		4,148,654,673
Long-term refund liabilities and provisions	16,24		1,217,912,194		1,218,175,670
Net defined benefit liabilities	15,22		7,597,775,982		-
Total non-current liabilities			<u>75,037,450,202</u>		<u>66,122,484,346</u>
Total liabilities		W	<u>1,875,438,656,310</u>	W	<u>1,781,536,356,306</u>

KT&G Corporation
Interim Separate Statements of Financial Position, Continued
As of June 30, 2022 (Unaudited) and December 31, 2021



(in Korean won)

	<u>Notes</u>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Equity			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		3,582,160,908	3,582,160,908
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		6,824,155,085,982	6,515,544,653,691
Retained earnings		599,167,986,457	877,116,550,879
Total equity	₩	<u>8,030,776,942,684</u>	<u>₩ 8,000,115,074,815</u>
Total liabilities and equity	₩	<u>9,906,215,598,994</u>	<u>₩ 9,781,651,431,121</u>

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

KT&G Corporation

Interim Separate Statements of Comprehensive Income

For the three-month and six-month periods ended June 30, 2022 and 2021 (Unaudited)



(in Korean won)

	Notes	June 30, 2022		June 30, 2021	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Sales	4,22	₩ 966,346,260,699	₩ 1,811,196,144,138	₩ 950,905,694,772	₩ 1,708,693,655,414
Manufacture of tobacco		810,750,390,208	1,541,068,640,737	703,353,500,439	1,342,980,167,481
Real estate	17	116,225,867,365	202,718,618,297	221,822,651,162	319,533,242,219
Exports of leaf tobacco and others		39,370,003,126	67,408,885,104	25,729,543,171	46,180,245,714
Cost of sales	22	(449,537,632,368)	(841,626,512,562)	(413,838,927,089)	(745,970,838,268)
Manufacture of tobacco		(364,677,480,309)	(695,147,082,617)	(287,394,264,798)	(558,874,297,201)
Real estate	17	(52,262,912,582)	(88,641,881,842)	(107,035,789,725)	(151,988,142,914)
Exports of leaf tobacco and others		(32,597,239,477)	(57,837,548,103)	(19,408,872,566)	(35,108,398,153)
Gross profit		516,808,628,331	969,569,631,576	537,066,767,683	962,722,817,146
Selling and administrative expense	18,22	(204,158,389,667)	(384,358,084,402)	(210,687,223,360)	(388,393,273,121)
Operating profit		312,650,238,664	585,211,547,174	326,379,544,323	574,329,544,025
Other income	19,22,23	185,477,325,931	254,278,819,241	9,786,304,045	72,475,054,816
Other expense	19,22,23	(32,066,842,996)	(46,216,921,540)	(16,611,576,014)	(23,693,613,623)
Finance income	20,22,23	21,860,212,149	74,498,968,898	18,036,227,822	38,276,602,206
Finance costs	20,22,23	(9,836,718,018)	(32,367,236,132)	(3,295,997,232)	(7,291,912,838)
Profit before income tax		478,084,215,730	835,405,177,641	334,294,502,944	654,095,674,586
Income tax expense	21	(127,615,798,550)	(227,062,700,717)	(91,012,605,313)	(173,837,527,112)
Profit for the period		₩ 350,468,417,180	₩ 608,342,476,924	₩ 243,281,897,631	₩ 480,258,147,474
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	₩	(203,276,948)	(844,269,467)	9,915,449,883	9,580,278,593
Gain (loss) on valuation of fair value through other comprehensive income or loss		(13,046,795,970)	(932,709,188)	9,132,274,461	15,097,979,298
		(13,250,072,918)	(1,776,978,655)	19,047,724,344	24,678,257,891
Total comprehensive income for the period	₩	₩ 337,218,344,262	₩ 606,565,498,269	₩ 262,329,621,975	₩ 504,936,405,365
Earnings per share					
Basic and diluted earnings per share	₩	2,921	5,070	1,961	3,871

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



KT&G Corporation Interim Separate Statements of Changes in Equity

For the six-month periods ended June 30, 2022 and 2021 (Unaudited)

(In Korean won)

	Share capital	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserves	Retained earnings	Total equity
Balance as of 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	₩ 8,063,942,189,931
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	9,580,278,593	9,580,278,593
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	15,097,979,298	-	15,097,979,298
Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	3,686,669,453	(3,686,669,453)	-
	-	-	-	-	18,784,648,751	5,893,609,140	24,678,257,891
	-	-	-	-	18,784,648,751	486,151,756,614	504,936,405,365
Total comprehensive income for the period							
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)
Transfer to other reserves	-	-	-	-	464,637,806,718	(464,637,806,718)	-
	-	-	-	-	464,637,806,718	(1,060,221,437,118)	(595,583,630,400)
Balance as of June 30, 2021	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,521,325,602,047	₩ 486,151,756,614	₩ 7,963,294,964,896
Balance as of January 1, 2022	₩ 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
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	608,342,476,924	608,342,476,924
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(844,269,467)	(844,269,467)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(932,709,188)	-	(932,709,188)
Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,330,221,000	(8,330,221,000)	-
	-	-	-	-	7,397,511,812	(9,174,490,467)	(1,776,978,655)
Total comprehensive income for the period							
Transactions with owners of the Company:							
Dividends	-	-	-	-	-	599,167,986,457	606,565,498,289
Transfer to other reserves	-	-	-	-	301,212,920,479	(575,903,630,400)	(575,903,630,400)
	-	-	-	-	301,212,920,479	(877,116,550,879)	(575,903,630,400)
Balance as of June 30, 2022	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,824,155,085,982	₩ 599,167,986,457	₩ 8,030,776,942,684

“The accompanying notes are an integral part of the interim separate financial statements.”

KT&G Corporation
Interim Separate Statements of Cash Flows
For the six-month periods ended June 30, 2022 and 2021 (Unaudited)



(in Korean won)

	Notes	June 30, 2022	June 30, 2021
Net cash flows provided by operating activities		W 464,734,144,447	W 173,293,251,142
Cash generated from operations	25	651,151,267,313	384,011,909,936
Income taxes paid		(186,417,122,866)	(210,718,658,794)
Net cash flows provided by (used in) investing activities		287,861,018,312	(42,685,297,069)
Interest received		2,908,801,029	1,905,615,202
Dividends received		18,513,269,736	15,145,943,074
Decrease in other financial assets		250,000,000,000	190,000,000,000
Decrease in current financial assets measured at fair value through profit or loss		231,159,396,358	176,375,489,709
Decrease in long-term financial assets measured at fair value through profit or loss		-	19,988,432,993
Decrease in financial assets measured at fair value through other comprehensive income or loss		7,200,000,000	72,839,804
Disposal of property, plant and equipment		636,833,171	5,456,044,983
Disposal of intangible assets		300,000,000	7,850,750
Disposal of investment properties		-	439,861,511
Disposal of assets held for sale		62,512,576,176	119,106,442
Disposal of investments in associates and joint ventures		12,278,711,553	-
Collection of loans		9,089,373,356	8,507,635,559
Collection of guarantee deposits		-	23,668,634
Increase in other financial assets		(90,000,000,000)	(190,000,000,000)
Increase in long-term financial assets measured at fair value through profit or loss		(26,042,400,800)	(21,770,000,000)
Increase in financial assets measured at fair value through other comprehensive income or loss		(2,999,982,000)	(18,000,000,000)
Increase in long-term deposits in MSA Escrow Fund		(93,438,012,240)	(120,077,263,844)
Acquisition of property, plant and equipment		(34,497,217,688)	(68,197,112,773)
Acquisition of intangible assets		(23,025,949,546)	(11,288,979,615)
Acquisition of investment properties		(3,565,385,905)	(7,874,747,978)
Acquisition of investments in associates and joint ventures		(29,488,895,600)	(15,000,000,000)
Acquisition of investments in subsidiaries		-	(3,213,600,000)
Increase in loans		(2,408,063,493)	(5,285,110,048)
Increase in guarantee deposits		(1,272,035,795)	(20,971,472)
Net cash flows used in financing activities		(580,110,490,279)	(600,421,759,153)
Dividends payment		(575,903,630,400)	(595,583,630,400)
Interest paid		(197,135,524)	(729,413,166)
Repayment of lease liabilities		(4,009,724,355)	(4,108,715,587)
Net increase (decrease) in cash and cash equivalents		172,484,672,480	(469,813,805,080)
Cash and cash equivalents at the beginning of the period		590,603,139,764	1,076,113,853,748
Effect of exchange rate fluctuation on cash and cash equivalents		4,125,372,463	515,869,986
Cash and cash equivalents at the end of the period	W	<u>767,213,184,707</u>	W <u>606,815,918,654</u>

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

1. Overview of the Company

KT&G Corporation (the “Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2022, the Company has three manufacturing plants, including Shintanjin plant, and 14 local headquarters and 113 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 June 30, 2022, are as follows:

	<u>Shares held (number of shares)</u>	<u>Percentage of ownership (%)</u>
National Pension Service	10,361,273	7.55
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,032,649	2.94
Treasury shares	17,312,574	12.61
Others	96,075,516	69.97
	<u>137,292,497</u>	<u>100.00</u>

2. Significant Accounting Policies

(1) Basis of Preparation

The interim separate financial statements of the Company have been prepared in accordance with KIFRS 1034 *Interim Financial Reporting*. The accompanying interim separate financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

The Company 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 June 30, 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 Combinations – 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 interim separate financial statements are consistent with those of the separate 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.

3. Critical Accounting Estimates and Assumptions

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

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

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 KIFRS 1108.

(in millions of Korean won)

				June 30, 2022		June 30, 2021					
				Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended				
Revenue recognized at a point in time:											
Sales of tobacco/merchandise and service revenue	Korea	Wholesale and retail	₩	551,417	₩	1,044,239	₩	480,340	₩	938,045	
		Direct sales		673		1,512		1,082		1,883	
	Export	Wholesale and retail		258,661		495,318		221,935		403,053	
Sales of semifinished tobacco products/raw materials and others	Korea	Direct sales		602		3,645		211		573	
	Export	Direct sales		38,768		63,764		25,516		45,607	
Subtotal					850,121		1,608,478		729,084		1,389,161
Revenue recognized over time:											
Sales and rental of real estate	Korea	Sales		95,800		160,964		203,019		281,106	
	Korea	Rental		20,425		41,754		18,803		38,427	
Subtotal					116,225		202,718		221,822		319,533
Total				₩	966,346	₩	1,811,196	₩	950,906	₩	1,708,694

5. Trade and Other Receivables

(a) Trade and other receivables as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,036,927	₩ 39,504	₩ 701,749	₩ 37,470
Loans	24,940	47,367	23,629	51,545
Other receivables	60,855	32,286	30,573	13,981
Guarantee deposits	22,134	35,370	29,316	20,158
Accrued income	8,810	4,687	3,536	4,517
Total	₩ 1,153,666	₩ 159,214	₩ 788,803	₩ 127,671

(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 June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,274,963	₩ 248,320	₩ 912,089	₩ 215,901
Allowances:				
Trade receivables	(120,400)	(58,070)	(121,786)	(57,153)
Other receivables	(897)	(31,036)	(1,500)	(31,077)
Total allowances	(121,297)	(89,106)	(123,286)	(88,230)
Net trade and other receivables	₩ 1,153,666	₩ 159,214	₩ 788,803	₩ 127,671

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	June 30, 2021
Beginning balance	₩ 211,516	₩ 143,948
Loss (reversal) of impairment	(1,113)	11,304
Ending balance	₩ 210,403	₩ 155,252

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.

6. Inventories

(a) Inventories as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022			December 31, 2021		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 12,872	₩ (1,574)	₩ 11,298	₩ 15,559	₩ (1,100)	₩ 14,459
Finished goods	101,654	(9,802)	91,852	98,723	(12,271)	86,452
Half-finished goods	28,775	(1,568)	27,207	18,821	(1,876)	16,945
Work in progress	1,755	-	1,755	3,048	-	3,048
Raw materials	622,755	(5)	622,750	669,478	-	669,478
Materials	37,349	(6,908)	30,441	38,036	(6,760)	31,276
Supplies	49,334	-	49,334	47,772	-	47,772
By-products	6,305	-	6,305	6,531	-	6,531
Buildings under construction	9,723	-	9,723	5,926	-	5,926
Completed buildings	1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate	2,536	-	2,536	3,673	-	3,673
Goods in transit	15,151	-	15,151	36,216	-	36,216
Total	₩ 889,699	₩ (19,857)	₩ 869,842	₩ 946,909	₩ (22,007)	₩ 924,902

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories	₩ (299)	₩ (2,150)	₩ (2,517)	₩ (3,675)
Loss on obsolescence of inventories	522	2,307	295	2,267
Total	₩ 223	₩ 157	₩ (2,222)	₩ (1,408)

7. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures as of June 30, 2022 and December 31, 2021, are as follows:

(in millions of Korean won)

	Location	Principal operation	June 30, 2022		December 31, 2021	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	12.88	₩ 1,830	12.88	₩ 1,830
	KORAMCO Banpo PFV Co., Ltd. ^{1,7}	Korea	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	19.47	1,850	19.47	1,850
	KORAMCO Amsa PFV Co., Ltd. ^{1,2}	Korea	-	-	17.84	1,159
	KOCREF 36 REIT ⁸	Korea	21.01	15,000	21.01	15,000
	KOCREF 41 REIT ³	Korea	26.47	39,568	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	17,764	21.43	17,764
	Kiwoom Milestone Private REIT No.16 ⁴	Korea	45.45	15,000	45.50	15,000
	Cheongna Medipolis PFV Co., Ltd. ⁵	Korea	56.74	17,022	56.74	17,022
	INNODIS Co., Ltd. ¹	Korea	19.64	55	19.60	55
	SJ BIO MED Co., Ltd. ¹	Korea	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	23.04	-	23.13	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	50.00	144,500	50.00	144,500
Total				₩ 276,395		₩ 237,986

¹It 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.

²The Company has reclassified its holdings as assets held for sale following the resolution of dissolution made at shareholders' meeting, and liquidation was completed for the six-month period ended June 30, 2022.

³Because the percentage of ownership increased due to the disproportionate capital decrease for the six-month period ended June 30, 2022, the Company has acquired its significant influence on the invested company. The Company has reclassified its holdings as an investment in associates.

⁴It is reclassified as an investment in associates since the Company reassessed that it has significant influence over the invested company for the year ended December 31, 2021.

⁵The Company classified such holdings as an investment in associates since decisions on significant financial, operating policies of the invested company are to be made with more than three fourths of Board of Directors in accordance with investment agreement.

⁶It is classified as an investment in joint ventures since decisions about the significant financial and operating policies of the invested company cannot be made without unanimous consent of the parties that control the arrangement collectively.

⁷As of June 30, 2022, the Company's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as collateral for a PF loan.

⁸Because the percentage of ownership increased due to the disproportionate capital decrease for 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.

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), a joint venture.

For the six-month period ended June 30, 2022, the Company has additionally acquired 138,706 shares (₩29,489 million) of KOCREF 41 REIT by participating in a capital increase and reclassified its holdings as an investment in associates. The Company also has disposed of 99,000 preferred shares (₩7,920 million) and recognized ₩4,359 million of gain on disposal of investment in associates.

8. Investments in subsidiaries

(a) Details of investments in subsidiaries as of June 30, 2022 and December 31, 2021, are as follows:

(in millions of Korean won)

	Location	Principal operation	June 30, 2022		December 31, 2021	
			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 Industrial Co., Ltd.	Korea	Manufacturing reconstituted tobacco leaves	100.00	52,698	100.00	52,698
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	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	-
Cosmocos 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	163,104
PT KT&G Indonesia	Indonesia	Selling tobaccos	99.99	1,162	99.99	1,162
SangSang Stay Inc.	Korea	Hotel business	100.00	1,898	100.00	4,819
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	100.00	8,081
Mastern No.144 PFV Co., Ltd.	Korea	Real estate development and sales business	92.50	37,000	92.50	37,000
				₩ 1,198,475		₩ 1,201,396

¹The Company has acquired additional 6,978,948 shares (₩25,291 million) of Renzoluc Pte., Ltd. during the year ended December 31, 2021. The percentage of ownership is 100% including preferred shares as of June 30, 2022 and December 31, 2021.

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 loss for its investment in subsidiaries where 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 loss, etc. Details of such impairment loss recognized for the periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Method for evaluating recoverable amount</u>
Cosmocos Co., Ltd.	₩ -	₩ 1,820	Fair value less costs to sell
SangSang Stay Inc.	2,921	3,941	Fair value less costs to sell
	<u>₩ 2,921</u>	<u>₩ 5,761</u>	

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

9. Property, Plant and Equipment

Changes in property, plant and equipment for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beginning balance	₩ 1,128,957	₩ 1,139,630
Acquisition	33,816	62,008
Disposal/Impairment	(1,674)	(475)
Depreciation	(49,505)	(48,407)
Reclassification and others	(30,348)	(30,150)
Ending balance	<u>₩ 1,081,246</u>	<u>₩ 1,122,606</u>

10. Intangible Assets

Changes in intangible assets for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
Beginning balance	₩	97,363	₩	66,323
Acquisition		19,642		11,289
Disposal/Impairment		(406)		(196)
Amortisation		(4,723)		(3,242)
Reclassification and others		230		-
Ending balance	₩	<u>112,106</u>	₩	<u>74,174</u>

11. Investment Properties

Changes in investment properties for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
Beginning balance	₩	1,128,470	₩	1,101,189
Acquisition		3,565		7,875
Disposal/Impairment		-		(473)
Depreciation		(13,109)		(13,095)
Reclassification and others		6,758		30,150
Ending balance	₩	<u>1,125,684</u>	₩	<u>1,125,646</u>

12. Right-of-use Assets

Changes in right-of-use assets for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
Beginning balance	₩	22,644	₩	29,047
Acquisition		3,351		3,696
Disposal/Impairment		(156)		(59)
Depreciation		(4,499)		(5,316)
Ending balance	₩	<u>21,340</u>	₩	<u>27,368</u>

13. Assets Held for Sale

Changes in assets held for sale for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2022		June 30, 2021	
Beginning balance	₩	14,901	₩	2,000
Disposal		(38,707)		-
Reclassification ¹		23,806		-
Ending balance	₩	-	₩	2,000

¹Consist of ₩22,647 million reclassified from investment properties and ₩1,159 million reclassified from investment in associates.

14. Borrowings

Short-term borrowings as of June 30, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	Lender	June 30, 2022		December 31, 2021	
Consumer credit agreements	NH Nonghyup Bank	₩	324	₩	437
	Hana Card		123		152
	Total	₩	447	₩	589

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.

15. Employee Benefits

(a) Profit or loss recognized related to employee benefits for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Defined benefit plans:				
Current service cost	₩ 7,948	₩ 15,895	₩ 9,303	₩ 17,859
Net interest on net defined benefit liabilities (assets)	(74)	(148)	181	362
Subtotal	7,874	15,747	9,484	18,221
Defined contribution plan:				
Contributions recognized as expense	946	2,720	956	2,797
Other long-term employee benefits:				
Current service cost, etc.	1,011	2,052	6,410	7,127
Termination benefits:				
Voluntary retirements, etc.	-	1,772	-	1,253
Total	₩ 9,831	₩ 22,291	₩ 16,850	₩ 29,398

(b) Net defined benefit liabilities (assets) as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022	December 31, 2021
Present value of defined benefit obligations	₩ 395,554	₩ 388,559
Fair value of plan assets	(387,956)	(399,695)
Total	₩ 7,598	₩ (11,136)

16. Refund Liabilities and Provisions

(a) Refund liabilities and provisions as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,515	₩ -	₩ 4,915	₩ -
Refund liabilities	4,907	995	4,588	938
Provision for site restoration	111	30	111	30
Provision for financial guarantee	-	193	21	250
Provision for greenhouse gases	61	-	269	-
Total	₩ 8,594	₩ 1,218	₩ 9,904	₩ 1,218

(b) Changes in refund liabilities and provisions for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ -	₩ (1,400)	₩ 3,515
Refund liabilities	5,526	376	-	5,902
Provision for site restoration	141	-	-	141
Provision for financial guarantee	271	-	(78)	193
Provision for greenhouse gases	269	-	(208)	61
Total	₩ 11,122	₩ 376	₩ (1,686)	₩ 9,812

(in millions of Korean won)

	June 30, 2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 194	₩ (1,043)	₩ 3,615
Refund liabilities	2,284	3,193	(2,833)	2,644
Provision for site restoration	8,807	-	(4,854)	3,953
Provision for financial guarantee	622	-	(174)	448
Provision for greenhouse gases	178	44	(85)	137
Total	₩ 16,355	₩ 3,431	₩ (8,989)	₩ 10,797

17. Real Estate Pre-sales Contract

(a) Details of ongoing real estate pre-sales contracts for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

June 30, 2022								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹	Cost (cumulative) ²
Suwon hwaseo prugio briel	June 2020	September 2023	53.48	₩ 791,406	₩ 750,989	₩ 401,641	₩ 156,766	₩ 180,658

¹Excludes sales revenue of Suwon hwaseo park prugio, ₩4,198 million due to the fact that the construction has been completed and pre-sales contract is in progress as of June 30, 2022.

²Excludes cumulative costs of ₩1,985 million for common infrastructure.

(in millions of Korean won)

June 30, 2021								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ¹
Suwon hwaseo park prugio (Apartment)	June 2018	August 2021	92.85	₩ 1,188,399	₩ 1,186,535	₩ 1,101,693	₩ 189,708	₩ 462,584
Suwon hwaseo park prugio (Efficiency apartment)	October 2018	August 2021	92.55	₩ 112,051	₩ 106,488	₩ 96,975	₩ 16,866	₩ 59,071
Suwon hwaseo prugio briel	June 2020	September 2023	18.21	₩ 791,427	₩ 751,010	₩ 136,757	₩ 74,532	₩ 61,483
Total				₩ 2,091,877	₩ 2,044,033	₩ 1,335,425	₩ 281,106	₩ 583,138

¹Excludes cumulative costs of ₩43,019 million for common infrastructure.

(b) Receivables and payables for ongoing real estate pre-sales contracts as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

June 30, 2022				
Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon hwaseo prugio briel	₩ 401,641	₩ 302,381	₩ 102,877	₩ 3,617

(in millions of Korean won)

December 31, 2021				
Construction project	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 briel	₩ 244,875	₩ 227,360	₩ 20,715	₩ 3,200
Total	₩ 1,624,010	₩ 1,592,146	₩ 36,405	₩ 4,541

(c) No Material changes in estimated total contract revenues and total contract costs have occurred for the six-month period ended June 30, 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 June 30, 2022 and subject to change in the future.

18. Selling and Administrative Expenses

Selling and administrative expenses for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Salaries	₩ 69,515	₩ 142,582	₩ 64,050	₩ 134,099
Retirement and termination benefits	6,048	14,154	7,158	15,424
Employee welfare	9,847	18,446	12,520	20,111
Travel expenses	3,216	4,813	895	1,509
Communication cost	764	1,428	730	1,405
Utilities	2,616	5,814	2,021	5,290
Taxes and dues	21,900	23,168	25,550	26,846
Supplies	447	901	475	1,082
Rent	1,367	3,628	1,740	3,144
Depreciation	8,046	16,930	8,767	17,835
Amortization	2,827	4,668	1,566	3,236
Repairs and maintenance	1,266	1,900	2,102	3,004
Vehicles	1,024	1,855	914	1,728
Insurance	222	405	376	1,151
Commissions	39,712	74,435	36,184	66,972
Freight and custody	4,966	9,382	3,136	5,887
Conferences	717	1,166	522	860
Advertising	28,137	49,031	23,323	45,028
Education and training	679	1,478	938	1,801
Prizes and rewards	471	646	387	705
Research and development	5,100	7,997	8,000	19,307
Impairment loss(reversal) on trade receivables	(4,729)	(469)	9,333	11,969
Total	₩ 204,158	₩ 384,358	₩ 210,687	₩ 388,393

19. Other Income and Expense

(a) Other income for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Gain on foreign currency transaction	₩ 14,567	₩ 18,934	₩ 4,854	₩ 10,911
Gain on foreign currency translation	154,449	189,328	-	54,448
Gain on valuation of derivatives	-	-	713	718
Reversal of impairment loss on other receivables	781	1,539	791	1,270
Gain on disposal of property, plant and equipment	2,787	2,787	1,615	1,668
Gain on disposal of investment property	-	-	25	30
Gain on lease contract adjustments	3	3	26	29
Gain on disposal of assets held for sale	10,967	32,037	-	-
Gain on disposal of investments in associates and joint ventures	-	4,359	-	-
Miscellaneous income	1,923	5,292	1,763	3,401
Total	₩ 185,477	₩ 254,279	₩ 9,787	₩ 72,475

(b) Other expense for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Loss on foreign currency transaction	₩ 5,282	₩ 8,064	₩ 1,451	₩ 2,685
Loss on foreign currency translation	-	1,421	7,450	459
Loss on valuation of derivatives	23,875	28,961	15	11,856
Loss on impairment of other receivables	509	895	326	605
Loss on disposal of property, plant and equipment	198	215	323	343
Loss on impairment of property, plant and equipment	511	511	-	-
Loss on disposal of intangible assets	9	16	-	-
Loss on impairment of intangible assets	58	91	68	103
Loss on disposal of Investment Property	-	-	63	63
Loss on disposal of assets held for sale	-	1,218	-	-
Loss on impairment of investments in subsidiaries	1,005	2,921	5,761	5,761
Loss on lease contract adjustments	3	4	-	-
Donations	617	1,690	1,037	1,584
Miscellaneous loss	-	210	118	235
Total	₩ 32,067	₩ 46,217	₩ 16,612	₩ 23,694

20. Finance Income and Costs

Finance income and costs for the three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Finance income:				
Interest income ¹	₩ 5,188	₩ 8,418	₩ 3,200	₩ 6,640
Dividend income	7,897	37,712	6,617	15,140
Gain on valuation of fair value through profit or loss	8,775	28,369	8,219	16,496
Total finance income	₩ 21,860	₩ 74,499	₩ 18,036	₩ 38,276
Finance cost:				
Interest expense	₩ 526	₩ 1,010	₩ 592	₩ 1,186
Loss on valuation of fair value through profit or loss	9,311	21,057	2,704	6,106
Other financial expense	-	10,300	-	-
Total finance cost	₩ 9,837	₩ 32,367	₩ 3,296	₩ 7,292
Net finance income	₩ 12,023	₩ 42,132	₩ 14,740	₩ 30,984

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

21. 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 six-month periods ended June 30, 2022 and 2021, are 27.18% and 26.58%, respectively.

22. Related Parties

(a) The Company's related parties as of June 30, 2022 and December 31, 2021 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)						
			June 30, 2022			December 31, 2021			
			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 Industrial Co., Ltd.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	99.99	-	99.99	99.99	-	99.99	
	Korea Tabacos do Brasil Ltda.	Brazil	99.99	-	99.99	99.99	-	99.99	
	KT&G Pars	Iran	99.99	-	99.99	99.99	-	99.99	
	KT&G Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00	
	KT&G USA Corporation	USA	100.00	-	100.00	100.00	-	100.00	
	Cosmococ Co., Ltd.	Korea	98.56	-	98.56	98.56	-	98.56	
	Renzoluc Pte., Ltd. ¹	Singapore	100.00	-	100.00	100.00	-	100.00	
	PT KT&G Indonesia	Indonesia	99.99	-	99.99	99.99	-	99.99	
	SangSang Stay Inc.	Korea	100.00	-	100.00	100.00	-	100.00	
	KT&G Global Rus L.L.C.	Russia	100.00	-	100.00	100.00	-	100.00	
	Gwacheon Sangsang PFV. Inc.	Korea	51.00	-	51.00	51.00	-	51.00	
	KT&G Taiwan Corporation ²	Taiwan	100.00	-	100.00	100.00	-	100.00	
	Mastern No.144 PFV Co., Ltd. ²	Korea	92.50	-	92.50	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	
	KGCyebon Corporation	Korea	-	100.00	100.00	-	100.00	100.00	
	KGC Life&Gin Co., Ltd.	Korea	-	100.00	100.00	-	100.00	100.00	
	Jilin Hanzheng Ginseng Co., Ltd.	China	-	100.00	100.00	-	100.00	100.00	
	Cheong Kwan Jang Taiwan Corporation	Taiwan	-	100.00	100.00	-	100.00	100.00	
	Korean Red Ginseng Corp. Inc.	USA	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng (China) Corp.	China	-	100.00	100.00	-	100.00	100.00	
	Korea Ginseng Corp. 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	-	99.96	99.96	-	99.99	99.99	
	Associates	LitePharmTech Co., Ltd. ³	Korea	12.88	-	12.88	12.88	-	12.88
		KORAMCO Banpo PFV Co., Ltd. ³	Korea	18.95	-	18.95	18.95	-	18.95
		KORAMCO Dongjak PFV Co., Ltd. ³	Korea	19.47	-	19.47	19.47	-	19.47
KOCREF 36 REIT ¹⁰		Korea	21.01	-	21.01	21.01	-	21.01	
KOCREF 41 REIT ⁶		Korea	26.47	-	26.47	-	-	-	
AndaStation Professional Investment Private REIT No.1		Korea	21.43	-	21.43	21.43	-	21.43	
Kiwoom Milestone Private REIT No.16 ⁷		Korea	45.45	-	45.45	45.50	-	45.50	
Cheongna Medipolis PFV Co., Ltd. ^{2,8}		Korea	56.74	-	56.74	56.74	-	56.74	
INNODIS Co., Ltd. ³		Korea	19.64	-	19.64	19.60	-	19.60	
SJ BIO MED Co., Ltd. ³		Korea	14.39	-	14.39	14.39	-	14.39	
LSK Global Pharma Service Co., Ltd.		Korea	23.04	-	23.04	23.13	-	23.13	
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
Others	KORAMCO Ocheon PFV Co., Ltd. ⁴	Korea	-	-	-	18.95	-	18.95	
	KORAMCO Amsa PFV Co., Ltd. ⁵	Korea	-	-	-	17.84	-	17.84	

¹The Company has acquired additional 6,978,948 convertible preference shares of Renzoluc Pte., Ltd. The percentage of ownership is 100% including preferred shares as of June 30, 2022 and December 31, 2021.

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

³It 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.

⁴Since 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 six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

⁵The Company has reclassified its holdings as assets held for sale following the resolution of dissolution made at shareholders' meeting. Also, it is liquidated for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

⁶Because the percentage of ownership increased due to the disproportionate capital decrease for the six-month period ended June 30, 2022, the Company has acquired its significant influence on the invested company. The Company has reclassified its holdings as an investment in associates.

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

⁸The Company classified such holdings as an investment in associates since decisions on significant financial, operating policies of the invested company are to be made with more than three fourths of Board of Directors in accordance with investment agreement.

⁹It is classified as an investment in joint ventures since decisions about the significant financial and operating policies of the invested company cannot be made without unanimous consent of the parties that control the arrangement collectively.

¹⁰Because the percentage of ownership increased due to the disproportionate capital decrease for 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.

(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 three-month and six-month periods ended June 30, 2022 and 2021 are as follows:

(1) Sales and other income
(in millions of Korean won)

Type	Name of entity	June 30, 2022		June 30, 2021	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Subsidiaries	Korea Ginseng Corporation	₩ 2,388	₩ 4,720	₩ 2,205	₩ 4,370
	Yungjin Pharm. Co., Ltd.	120	211	91	173
	Tae-A Industrial Co., Ltd.	115	223	115	238
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	4,349	7,413	4,483	6,186
	Korea Tabacos do Brasil Ltda.	1	2	1	2
	KT&G Rus L.L.C. ¹	17,840	25,703	11,342	21,277
	KT&G USA Corporation	-	-	48,139	88,881
	Cosmococ Co., Ltd.	7	12	59	87
	PT KT&G Indonesia ¹	139	269	254	513
	SangSang Stay Inc.	1,216	2,442	1,201	2,401
	KT&G Global Rus L.L.C. ¹	12	176	13	20
	Gwacheon Sangsang PFV. Inc.	-	20,824	-	-
	KGcyebon Corporation	6	10	6	10
	KGC Life&Gin Co., Ltd.	19	38	20	40
	PT Trisakti Purwosari Makmur ¹	12,463	22,356	6,002	10,535
	KT&G Taiwan Corporation	171	171	-	-
	Associates	KOCREF 36 REIT	600	600	-
KOCREF 41 REIT		822	822	-	-
Kiwoom Milestone Private REIT No.16		-	793	-	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	648	648	630	630
	Other	-	-	-	18
	Total	₩ 40,916	₩ 87,433	₩ 74,561	₩ 135,381

¹Excludes impairment loss of ₩2,185 million and ₩2,119 million in relation to the related parties for the six-month periods ended June 30, 2022 and 2021.

(2) Purchases and other expenses
(in millions of Korean won)

Type	Name of entity	June 30, 2022		June 30, 2021	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Subsidiaries	Korea Ginseng Corporation	₩ 366	₩ 708	₩ 216	₩ 662
	Yungjin Pharm. Co., Ltd.	23	246	20	329
	Tae-A Industrial Co., Ltd.	7,830	14,442	6,008	12,227
	KT&G Rus L.L.C.	-	-	1	1
	Cosmococ Co., Ltd.	11	17	6	15
	SangSang Stay Inc.	55	62	66	100
	KGcyebon Corporation	205	412	47	91
	KGC Life&Gin Co., Ltd.	3	7	-	2
	PT Trisakti Purwosari Makmur	-	7	-	-
	Associates	INNODIS Co., Ltd.	96	530	354
Joint ventures	Starfield Suwon Inc.	-	68	-	-
	Total	₩ 8,589	₩ 16,499	₩ 6,718	₩ 14,051

(c) Account balances of receivables and payables with related parties as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022		December 31, 2021		
		Receivables	Payables	Receivables	Payables	
Subsidiaries	Korea Ginseng Corporation	₩ 517	₩ 2,078	₩ -	₩ 2,022	
	Yungjin Pharm. Co., Ltd.	69	51	-	48	
	Tae-A Industrial Co., Ltd.	-	7,363	-	4,400	
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	61,902	-	49,596	-	
	Korea Tabacos do Brasil Ltda. ^{1,2}	120	-	118	-	
	KT&G Pars ^{1,2}	44,526	-	44,526	-	
	KT&G Rus L.L.C. ¹	77,983	-	40,213	-	
	KT&G USA Corporation ¹	53,094	323	53,094	297	
	Cosmococ Co., Ltd.	2	1	-	-	
	SangSang Stay Inc.	-	21	-	-	
	PT KT&G Indonesia ^{1,2,3}	31,629	-	28,745	-	
	KT&G Global Rus L.L.C. ¹	102	-	254	-	
	Gwacheon Sangsang PFV. Inc.	20,824	-	-	-	
	KGCyebon Corporation	5	8,666	-	8,949	
	KGC Life&Gin Co., Ltd.	-	115	-	135	
	PT Trisakti Purwosari Makmur ¹	42,655	48	36,835	-	
	KT&G Taiwan Corporation	42	-	-	-	
	Associates	AndaStation Professional Investment Private REIT No.1	-	-	481	-
		INNODIS Co., Ltd.	-	35	-	-
		Other	KORAMCO Ocheon PFV Co., Ltd.	-	-	18
Total	₩ 333,470		₩ 18,701	₩ 253,880	₩ 15,851	

¹Presented in total amount before deducting loss allowance of ₩147,591 million and ₩145,406 million as of June 30, 2022 and as of December 31, 2021.

²Includes loans to related parties.

³During the year ended December 31, 2021, the Company has renewed a contract which extends the maturity of its loan to PT KT&G Indonesia worth at USD 20,750 thousand.

(d) Purchase and sale of tangible assets with related parties for the six-month periods ended June 30, 2022 and 2021 is as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022		June 30, 2021	
		Sale of tangible assets	Purchase of tangible assets	Sale of tangible assets	Purchase of tangible assets
Subsidiaries	KGCyebon Corporation	₩ -	₩ 246	-	-
	PT Trisakti Purwosari Makmur	12,119	-	-	-
	Total	₩ 12,119	₩ 246	-	-

(e) Fund transactions with related parties for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2022			June 30, 2021	
		Equity investment	Repayment of lease liabilities	Equity recovery	Equity investment	Repayment of lease liabilities
Subsidiaries	KT&G Taiwan Corporation	W -	W -	W -	3,214	W -
	KGCyebon Corporation	-	301	-	-	349
Associates	KOCREF 41 REIT	29,489	-	12,279	-	-
Joint ventures	Starfield Suwon Inc. ¹	-	-	-	15,000	-
Others	KORAMCO Ocheon PFV Co., Ltd. ²	-	-	24,353	-	-
	KORAMCO Amsa PFV Co., Ltd. ³	-	-	1,749	-	-
	Total	W 29,489	W 301	W 38,381	W 18,214	W 349

¹The Company decided to acquire 900,000 shares (₩45,000 million) of Starfield Suwon Inc. through the board of directors on May 12, 2021. 300,000 shares (₩15,000 million) were acquired in May 2021, and 600,000 shares (₩30,000 million) were acquired in August 2021.

²Since 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 six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

³The Company has reclassified its holdings as assets held for sale following the resolution of dissolution made at shareholders' meeting. Also, it is liquidated for the six-month period ended June 30, 2022 and has been excluded from the list of related parties, accordingly.

(f) As of June 30, 2022, KT&G USA Corporation is being provided with payment guarantee from the Federal Insurance Company up to USD - 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 24 (c)).

(g) As of June 30, 2022, KT&G Taiwan Corporation is being provided with payment guarantee from the Citi Bank Taiwan (Executed amount: nil) for import clearance. The Company has a recourse responsibility up to a limit of TWD 200,000 thousand to the Citi Bank Taiwan (Note 24 (c)).

(h) During the June 30, 2022, 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 Cosmococ Co., Ltd., the subsidiaries of the Company.

(i) The Company 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 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.

(j) 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 June 30, 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.

(k) Upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc., unanimous consent of the other shareholders is required.

(l) 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.

(m) 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 by obtaining approval from 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.

(n) Key management personnel compensation for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<u>June 30, 2022</u>		<u>June 30, 2021</u>
Short-term and long-term employee benefits	₩	9,950	₩	11,732
Retirement benefits		1,209		1,218
Total	₩	<u>11,159</u>	₩	<u>12,950</u>

23. Risk Management and Fair Value of Financial Instruments

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

(a) Market risk

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

① Currency risk

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

② Price risk

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

③ Interest rate risk

The Company is exposed to interest rate fluctuation risk in relation to the 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 variable interest rate liabilities of the Company as of June 30, 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 Company is exposed to credit risk that will cause financial loss to the other party because one of the parties to the financial instrument fails to perform its obligations. To manage credit risk, the management of the Company deals with customers with certain level of creditworthiness or higher, and prepares and operates policies and procedures for credit enhancement of the financial assets. The Company evaluates the creditworthiness of the client using financial information disclosed at the time of contract with the new client and information provided by the credit rating agency, and determines the credit limit on the basis of this, and is provided with collateral or payment guarantee. In addition, the Company periodically reassesses the credit limit, readjusts the collateral level by reassessing the client's creditworthiness, reports the delayed recovery status and recovery measures on a quarterly basis for financial assets that are delayed and takes appropriate measures according to the reason for the delay.

As of June 30, 2022 and December 31, 2021, the carrying amount of a financial asset indicates the maximum exposure to credit risk.

(c) Liquidity risk

The Company is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash etc., or other financial assets. To manage liquidity risk, the management of the Company establishes short and mid-to-long term financial management plan and continuously 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.

(d) The carrying amounts of each category of financial instruments as of June 30, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Financial assets:		
Financial assets fair value through profit or loss ¹	₩ 1,418,745	₩ 1,672,588
Financial assets fair value through other comprehensive income or loss	169,386	203,172
Derivative assets	-	580
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	414,529	181,880
Other financial assets	180,907	340,907
Trade and other receivables	1,312,880	916,474
Long-term deposits	1,464,336	1,250,468
Subtotal	<u>3,372,652</u>	<u>2,689,729</u>
Total financial assets	<u>₩ 4,960,783</u>	<u>₩ 4,566,069</u>
Financial liabilities:		
Derivative liabilities	₩ 14,551	₩ 908
Financial liabilities measured at amortized cost		
Short-term borrowings	447	589
Trade and other payables	569,219	475,267
Lease liabilities	20,320	22,220
Subtotal	<u>589,986</u>	<u>498,076</u>
Total financial liabilities	<u>₩ 604,537</u>	<u>₩ 498,984</u>

¹As of June 30, 2022, money market trust worth ₩352,685 million (December 31, 2021: ₩408,723 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 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 June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	June 30, 2022					
	Carrying amount	Fair value				
		Level 1	Level 2	Level 3		
Fair value through profit or loss ¹	₩ 1,418,745	₩ -	₩ 1,109,856	₩ 308,889		
Fair value through other comprehensive income or loss	169,386	163,162	-	6,224		
Total financial assets	₩ 1,588,131	₩ 163,162	₩ 1,109,856	₩ 315,113		
Derivative liabilities	₩ 14,551	₩ -	₩ 14,551	₩ -		

¹As of June 30, 2022, money market trust worth ₩352,685 million included in cash equivalents are classified as the financial assets measured at fair value through profit or loss.

(in millions of Korean won)

	December 31, 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	₩ -		

¹As of December 31, 2021, money market trust worth ₩408,723 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 six-month periods ended June 30, 2022 and 2021.

As of June 30, 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.

The changes in Level 3 fair value for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 2022		June 30, 2021	
Beginning balance	₩	312,642	₩	277,264
Acquisition		29,042		39,770
Disposal		-		(19,988)
Transfers		(28,300)		-
Changes in fair value		1,729		5,293
Ending balance	₩	315,113	₩	302,339

(f) Net gain or loss by category of financial instruments for the six-month periods ended June 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	June 30, 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	₩ -	₩ -	₩ -	₩ 8,418	₩ -	₩ 8,418
Dividend income	6,810	7,215	-	-	-	14,025
Gain or loss on valuation	7,312	-	(28,961)	-	-	(21,649)
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(1,010)	(1,010)
Impairment loss	-	-	-	1,113	-	1,113
Total	₩ 14,122	₩ (3,085)	₩ (28,961)	₩ 9,531	₩ (1,010)	₩ (9,403)
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (1,286)	₩ -	₩ -	₩ -	₩ (1,286)

(in millions of Korean won)

	June 30, 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	₩ -	₩ -	₩ -	₩ 6,640	₩ -	₩ 6,640
Dividend income	6,824	7,668	-	-	-	14,492
Gain or loss on valuation	10,390	-	(11,138)	-	-	(748)
Gain on disposal	-	-	-	-	29	29
Interest expense	-	-	-	-	(1,186)	(1,186)
Impairment loss	-	-	-	(11,304)	-	(11,304)
Total	₩ 17,214	₩ 7,668	₩ (11,138)	₩ (4,664)	₩ (1,157)	₩ 7,923
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ 20,825	₩ -	₩ -	₩ -	₩ 20,825

24. Contingent Liabilities and Commitments

(a) Litigation cases

As of June 30, 2022, the Company has 7 cases of pending litigations under progress where the Company is the defendant and the litigation amounts are ₩59,879 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of June 30, 2022, on the separate financial statements of the Company.

(b) Commitments with financial institutions

Major commitments of the Company with financial institutions as of June 30, 2022 are as follows:

(in thousands of US dollars)

Type	Financial institutions	Currency	Limit
Opening import letter of credits	Hana Bank	USD	100,000
Derivatives trading ¹	KB Kookmin Bank and four others	USD	338,500

¹Derivatives are composed of foreign exchange forward contracts and are held for trading as of June 30, 2022.

As of June 30, 2022, the Company has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 118,550 thousand, EUR 1,800 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 June 30, 2022 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	465,870	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	9,035	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,640	Escrow deposit guarantee
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves.

As of June 30, 2022, KT&G USA Corporation is being provided with a payment guarantee from the Federal Insurance Company (Executed amount: nil) for import clearance. The Company has a recourse responsibility up to a limit of USD 125,000 thousand to the Federal Insurance Company and others.

As of June 30, 2022, KT&G Taiwan Corporation is being provided with a payment guarantee from the Citi Bank Taiwan (Executed amount: nil) for import clearance. The Company has a recourse responsibility up to a limit of TWD 200,000 thousand to the Citi Bank Taiwan.

Payment guarantees provided by the Company for other parties as of June 30, 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 brial	Shinhan Bank	₩ 76,720 ₩	₩ 39,031	Loan guarantee for the intermediate payment of off-plan sales construction

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 (see Note 14).

Assets pledged as collateral as of June 30, 2022 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩ 478,933 ₩	₩ 26,152 ₩	₩ 28,269	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits /Establishment of lease contracts
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	₩ 495,146 ₩	₩ 116,749 ₩	₩ 44,482		

Restricted financial assets as of June 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		June 30, 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
	Total	₩ 110,907	₩ 110,907

(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 ₩1,464,336 million as of June 30, 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 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 June 30, 2022, 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 an investment agreement for the debt instruments of Smilegate-Newdeal fund and others with the limit of ₩23,000 million in total. As of June 30, 2022, the outstanding contribution amounts to ₩4,858 million, and the detailed schedule for contribution is not 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 June 30, 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 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 by obtaining approval from 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 June 30, 2022, the Company is being provided with a commitment from Daewoo Engineering & Construction Co., Ltd. to complete the construction of Suwon hwaseo prugio briel. 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 June 30, 2022, the Company 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 Cosmococ Co., Ltd. to provide operating funds and other management-related business support.

As of June 30, 2022, 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 June 30, 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 Company. The ultimate impact of changes in uncertainty due to Covid-19 on Company's business, financial position and financial performance is unpredictable as of June 30, 2022.

The Company is engaged in manufacturing and selling tobacco in Russia. As of June 30, 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 Company's business in Russia and its financial position therein cannot be reasonably estimated as of June 30, 2022.

25. Cash Flows

Cash generated from operations for the six-month periods ended June 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2022		June 30, 2021	
Profit for the six-month period ended June 30	₩	608,342	₩	480,258
Adjustments:				
Employee welfare		2,099		7,987
Retirement benefits		15,747		18,221
Loss (reversal) on valuation or obsolescence of inventories		157		(1,408)
Depreciation		67,113		66,818
Amortization		4,723		3,242
Loss (reversal) on impairment of trade and other receivables		(1,113)		11,304
Loss on foreign currency translation		1,421		459
Loss on valuation of derivatives		28,961		11,856
Loss on disposal of property, plant and equipment		215		343
Loss on impairment of property, plant and equipment		511		-
Loss on disposal of intangible assets		16		-
Loss on impairment of intangible assets		91		103
Loss on disposal of investment property		-		63
Loss on disposal of assets held for sale		1,218		-
Loss on impairment of investments in subsidiaries		2,921		5,761
Other expenses, etc.		201		44
Finance cost		32,367		7,292
Income tax expense		227,063		173,838
Gain on foreign currency translation		(189,328)		(54,448)
Gain on valuation of derivatives		-		(718)
Gain on disposal of property, plant and equipment		(2,787)		(1,668)
Gain on disposal of investment property		-		(30)
Gain on disposal of assets held-for-sale		(32,037)		-
Gain on disposal of investments in associates		(4,359)		-
Other income, etc.		(2,473)		(904)
Finance income		(74,499)		(38,276)
Changes in working capital:				
Increase in trade and other receivables		(308,917)		(248,035)
Decrease (increase) in derivatives		(14,738)		3,486
Decrease (increase) in inventories		56,376		(37,262)
Decrease in accrued tobacco excise and other taxes		145,995		79,288
Increase in advance payments		(23,943)		(24,351)
Decrease in prepaid expenses		2,750		1,903
Increase in trade and other payables		166,207		73,227
Increase (decrease) in advance receipts		4,181		(54,062)
Decrease in tobacco excise and other taxes payable		(65,152)		(94,379)
Decrease in provision for site restoration		-		(4,854)
Increase (decrease) in net defined benefit liabilities		1,822		(1,086)
Cash generated from operations	₩	651,151	₩	384,012