



KT&G Corporation

Interim Separate Financial Statements

For the nine-month period ended September 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)

**The Shareholders and 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 September 30, 2022, and the related interim separate statements of comprehensive income for the three-month and nine-month periods ended September 30, 2022, interim separate statement of changes in equity and interim separate statement of cash flows for the nine-month period ended September 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 ("KSA") 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 nine-month periods ended September 30, 2021, interim separate statement of changes in equity and interim separate statement of cash flows for the nine-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 November 12, 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 KSA (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, is not different, in all material respects, from the above audited separate statement of financial position.

November 10, 2022

Ernst & Young Han Young

This review report is effective as of November 10, 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 interim separate financial statements and may result in modifications to this review report.

KT&G Corporation

Interim Separate Financial Statements **for the three-month and nine-month periods ended September 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 September 30, 2022 (Unaudited) and December 31, 2021



(in Korean won)

	Notes	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents	23	₩ 1,011,154,655,636	₩ 590,603,139,764
Current other financial assets	23,24	158,540,300,000	332,200,000,000
Current financial assets at fair value through profit or loss	23	523,512,998,627	965,384,441,544
Trade and other receivables	5,17,22,23	1,247,526,590,407	788,803,379,227
Derivative assets	23,24	-	580,339,743
Inventories	6	970,095,851,833	924,901,908,672
Refund assets and others		880,809,506	1,549,159,785
Accrued tobacco excise and other taxes		207,846,722,788	307,592,828,809
Advance payments		20,060,879,883	71,669,672,717
Prepaid expenses		7,161,672,971	10,813,947,699
Assets held for sale	13,22	-	14,900,507,758
Total current assets		<u>4,146,780,481,651</u>	<u>4,008,999,325,718</u>
Non-current assets			
Long-term other financial assets	23,24	32,372,670,628	8,707,220,000
Long-term deposits in MSA Escrow Fund	23,24	1,627,910,859,635	1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	23,24	301,913,976,991	298,480,561,239
Long-term trade and other receivables	5,22,23	196,289,974,537	127,671,062,526
Long-term financial assets measured at fair value through other comprehensive income or loss	23,24	153,551,837,064	203,172,444,191
Investments in associates and joint ventures	7,22,24	261,395,497,220	237,986,101,620
Investments in subsidiaries	8,22	1,198,104,189,447	1,201,395,995,281
Property, plant and equipment	9,22	1,128,389,449,728	1,128,957,038,458
Intangible assets	10	111,522,752,747	97,363,311,045
Investment properties	11,24	1,054,062,369,915	1,128,470,409,577
Right-of-use assets	12	20,119,772,084	22,643,611,457
Long-term prepaid expenses		5,263,785,465	6,962,631,226
Deferred tax assets	21	66,613,668,805	49,238,252,507
Net defined benefit assets	15,22	-	11,135,956,233
Total non-current assets		<u>6,157,510,804,266</u>	<u>5,772,652,105,403</u>
Total assets		₩ <u>10,304,291,285,917</u>	₩ <u>9,781,651,431,121</u>
Liabilities			
Current liabilities			
Short-term borrowings	14,23,24	₩ 413,291,250	₩ 588,570,275
Trade and other payables	22,23,24	804,835,904,983	776,356,232,986
Current lease liabilities	22,23	5,929,772,984	7,343,536,299
Derivative liabilities	23,24	27,813,383,553	907,708,348
Advance receipts	17	11,950,779,488	13,104,141,586
Current refund liabilities and provisions	16,24	9,793,961,170	9,903,555,310
Current tax liabilities	21	251,744,610,700	210,773,719,060
Tobacco excise and other taxes payables		683,971,355,166	696,436,408,096
Total current liabilities		<u>1,796,453,059,294</u>	<u>1,715,413,871,960</u>
Non-current liabilities			
Long-term trade and other payables	22,23,24	52,041,968,209	45,879,579,619
Long-term lease liabilities	22,23	12,910,726,614	14,876,074,384
Long-term advance receipts	17	2,314,550,812	4,148,654,673
Long-term refund liabilities and provisions	16,24	1,211,846,502	1,218,175,670
Net defined benefit liabilities	15,22	16,531,138,542	-
Total non-current liabilities		<u>85,010,230,679</u>	<u>66,122,484,346</u>
Total liabilities		₩ <u>1,881,463,289,973</u>	₩ <u>1,781,536,356,306</u>

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



(in Korean won)

	<u>Notes</u>	<u>September 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		6,810,297,662,181	6,515,544,653,691
Retained earnings		1,005,076,463,518	877,116,550,879
Total equity	₩	<u>8,422,827,995,944</u>	₩ <u>8,000,115,074,815</u>
Total liabilities and equity	₩	<u>10,304,291,285,917</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 nine-month periods ended September 30, 2022 and 2021 (Unaudited)



(in Korean won)

	Notes	September 30, 2022		September 30, 2021	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Sales	4, 22	W 970,448,322,517	W 2,781,644,466,655	W 930,419,847,902	W 2,639,113,503,316
Manufacture of tobacco		809,710,711,864	2,350,779,352,601	713,588,882,967	2,056,569,050,448
Real estate	17	123,416,676,777	326,135,295,074	195,285,270,544	514,818,512,763
Exports of leaf tobacco and others		37,320,933,876	104,729,818,980	21,545,694,391	67,725,940,105
Cost of sales	22	(443,895,969,171)	(1,285,522,481,733)	(434,443,207,615)	(1,180,414,045,883)
Manufacture of tobacco		(366,202,426,411)	(1,061,349,509,028)	(308,110,088,965)	(866,984,386,166)
Real estate	17	(53,201,729,970)	(141,843,611,812)	(109,865,760,692)	(261,853,903,606)
Exports of leaf tobacco and others		(24,491,812,790)	(82,329,360,893)	(16,467,357,958)	(51,575,756,111)
Gross profit		526,552,353,346	1,496,121,984,922	495,976,640,287	1,458,699,457,433
Selling and administrative expenses	18, 22	(218,771,020,654)	(603,129,105,056)	(171,681,382,499)	(560,074,655,620)
Operating profit		307,781,332,692	892,992,879,866	324,295,257,788	898,624,801,813
Other income	19, 22, 23	269,833,039,908	524,111,859,149	91,739,979,742	164,115,246,607
Other expenses	19, 22, 23	(52,179,059,689)	(98,395,981,229)	(16,299,435,724)	(39,893,261,396)
Finance income	20, 22, 23	30,861,358,394	105,360,327,292	11,383,689,047	49,660,291,253
Finance costs	20, 22, 23	(533,982,247)	(32,901,218,379)	(4,817,818,850)	(12,109,731,688)
Profit before income tax		555,762,689,058	1,391,167,866,699	406,301,672,003	1,060,397,346,589
Income tax expense	21	(149,621,918,841)	(376,684,619,558)	(108,697,422,760)	(282,534,949,872)
Profit for the period	W	406,140,770,217	W 1,014,483,247,141	W 297,604,249,243	W 777,862,396,717
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	W	(232,293,156)	W (1,076,562,623)	W (114,405,648)	W 9,465,872,945
Gain (loss) on valuation of fair value through other comprehensive income or loss		(13,857,423,801)	(14,790,132,989)	(3,176,028,160)	11,921,951,138
		(14,089,716,957)	(15,866,695,612)	(3,290,433,808)	21,387,824,083
Total comprehensive income for the period	W	392,051,053,260	W 998,616,551,529	W 294,313,815,435	W 799,250,220,800
Earnings per share					
Basic and diluted earnings per share	W	3,385	W 8,455	W 2,398	W 6,269

"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 nine-month periods ended September 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							
Total comprehensive income (loss) for the period:							
Profit for the period	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,037,903,146,578	₩ 1,060,221,437,118	₩ 8,053,942,189,331
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	777,862,396,717	777,862,396,717
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	-	9,465,872,945	9,465,872,945
Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	11,921,951,138	-	11,921,951,138
Total comprehensive income for the period	-	-	-	-	3,614,169,453	(3,614,169,453)	-
Transactions with owners of the Company:							
Dividends	-	-	-	-	15,536,120,591	5,851,703,492	21,387,824,083
Transfer to other reserves	-	-	-	-	15,536,120,591	783,714,100,209	799,250,220,800
Balance as of September 30, 2021	₩ 954,959,485,000	₩ 3,582,160,908	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,518,077,073,887	₩ 783,714,100,209	₩ 8,257,608,780,331
Balance as of January 1, 2022	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,515,544,653,891	₩ 877,116,550,879	₩ 8,000,115,074,815
Total comprehensive income (loss) for the period:							
Profit for the period	-	-	-	-	-	1,014,483,247,141	1,014,483,247,141
Other comprehensive income (loss) for the period:							
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(1,076,562,623)	(1,076,562,623)
Loss on valuation of fair value through other comprehensive income or loss	-	-	-	-	(14,790,132,989)	-	(14,790,132,989)
Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	8,330,221,000	(8,330,221,000)	-
Transactions with owners of the Company:							
Dividends	-	-	-	-	(6,459,911,989)	(9,406,783,623)	(15,866,695,612)
Transfer to other reserves	-	-	-	-	(6,459,911,989)	1,005,076,463,518	998,616,551,529
Balance as of September 30, 2022	₩ 954,959,485,000	₩ 3,582,160,908	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,810,297,662,181	₩ 1,005,076,463,518	₩ 8,422,827,995,944

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

KT&G Corporation

Interim Separate Statements of Cash Flows

For the nine-month periods ended September 30, 2022 and 2021 (Unaudited)



(in Korean won)	Notes	September 30, 2022	September 30, 2021
Net cash flows provided by operating activities	₩	476,139,326,283	₩ 945,267,332,172
Cash generated from operations	25	823,210,068,717	1,321,260,283,523
Income taxes paid		(347,070,742,434)	(375,992,951,351)
Net cash flows provided by (used in) investing activities		514,179,833,484	(419,762,992,841)
Interest received		9,924,898,365	4,393,485,826
Dividends received		25,032,679,406	20,733,308,832
Decrease in other financial assets		290,000,000,000	120,596,920,000
Decrease in current financial assets measured at fair value through profit or loss		510,616,653,852	157,635,467
Decrease in long-term financial assets measured at fair value through profit or loss		1,749,303,339	20,262,867,769
Decrease in financial assets measured at fair value through other comprehensive income or loss		7,200,000,000	72,839,804
Decrease in long-term deposits in MSA Escrow Fund		-	443,725,928
Disposal of property, plant and equipment		3,954,806,327	6,006,236,056
Disposal of intangible assets		300,000,000	-
Disposal of investment properties		-	440,034,128
Disposal of assets held for sale		62,512,576,176	186,808,947
Disposal of investments in associates		42,881,601,172	-
Collection of loans		12,534,945,292	12,100,075,563
Collection of guarantee deposits		-	23,668,634
Increase in other financial assets		(140,006,000,000)	(122,366,920,000)
Increase in financial assets measured at fair value through profit or loss		-	(41,757,468,151)
Increase in long-term financial assets measured at fair value through profit or loss		(55,239,898,342)	(53,169,758,761)
Increase in financial assets measured at fair value through other comprehensive income or loss		(2,999,982,000)	(1,999,998,000)
Increase in long-term deposits in MSA Escrow Fund		(95,124,966,619)	(184,692,613,474)
Acquisition of property, plant and equipment		(92,523,574,429)	(94,119,654,963)
Acquisition of intangible assets		(23,315,110,755)	(23,133,022,753)
Acquisition of investment properties		(10,149,103,412)	(12,657,390,553)
Acquisition of investments in associates		(29,488,895,600)	(62,764,091,620)
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		(582,249,162,772)	(602,883,320,387)
Dividends payment		(575,903,630,400)	(595,583,630,400)
Interest paid		(285,320,904)	(1,127,960,061)
Repayment of lease liabilities		(6,060,211,468)	(6,171,729,926)
Net increase (decrease) in cash and cash equivalents		408,069,996,995	(77,378,981,056)
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		12,481,518,877	1,470,267,402
Cash and cash equivalents at the end of the period	₩	1,011,154,655,636	₩ 1,000,205,140,094

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

KT&G Corporation

Notes to the Interim Separate Financial Statements

September 30, 2022 and 2021 (Unaudited)



1. Overview of the Company

KT&G Corporation (the "Company") is engaged in manufacturing and selling tobaccos. As of September 30, 2022, the Company has three manufacturing plants, including the 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. In order to secure financing and promote efficient management of monopoly business of red ginseng and tobacco, the Company was excluded from the application of Framework Act on the Management of Government-Invested Institutions and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Improvement of Managerial Structure and Privatization of Public Enterprises, proclaimed on August 28, 1997 and enforced on October 1, 1997. The shareholders approved a plan to separate the Company into two companies by establishing a subsidiary for red ginseng business, effective as of January 1, 1999, pursuant to the Korean government's privatization program and management reorganization plan. The separation of a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Company's contribution of assets and liabilities into red ginseng business. On December 27, 2002, the Company changed its name from Korea Tobacco and Ginseng Corporation to KT&G Corporation.

On October 8, 1999, the Company sold 28,650,000 shares of government-owned interest to the public and listed its shares on Korea Exchange. The Company listed 35,816,658 and 45,400,000 shares of Global Depositary Receipts ("GDRs") on Luxembourg Stock Exchange, on October 17, 2002 and October 31, 2001, respectively (each GDR represents the right to receive one-half ordinary share of the Company). Then on June 25, 2009, the Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

The Company's major shareholders as of September 30, 2022 are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	10,216,717	7.44
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,027,250	2.93
Treasury shares	17,312,574	12.61
Others	96,225,471	70.09
	137,292,497	100.00

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 that 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 are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time in the 2022 reporting period. As of September 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 that 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 the reference to which the definition of recognized assets and liabilities are referred to, so that it refers to the amended Conceptual Framework for Financial Reporting, but added a requirement that for liabilities and contingencies within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*, such standards are applied in identifying the liabilities and contingencies assumed. The amendments also clarify that contingent assets are not to be recognized at the acquisition date.

(c) Amendments to KIFRS 1016 Property, Plant and Equipment – Proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset ready for its intended use. Instead, an 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 amendments clarify 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 each other's behalf.

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

The amendments remove the requirement in paragraph 22 of KIFRS 1041, on exclusion of cash flows for taxation when measuring the fair value of assets that are 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.

KT&G Corporation

Notes to the Interim Separate Financial Statements, Continued September 30, 2022 and 2021 (Unaudited)



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 the 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 the 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)

(in millions of Korean won)				September 30, 2022		September 30, 2021				
				Three-month period ended		Nine-month period ended		Three-month period ended		Nine-month period ended
Revenue recognized at a point in time:										
Sales of tobacco/merchandise and service revenue	Korea	Wholesale and retail	W	569,171	W	1,613,410	W	534,920	W	1,472,965
		Direct sales		688		2,200		773		2,656
	Export	Wholesale and retail		239,851		735,169		179,257		584,348
Sales of semfinished tobacco products/raw materials and others	Korea	Direct sales		2,496		6,141		198		771
		Export	Direct sales		34,825		98,589		19,986	
	Subtotal				847,031		2,455,509		735,134	
Revenue recognized over time:										
Sales and rental of real estate	Korea	Sales		101,967		262,931		175,990		457,095
		Korea	Rental		21,450		63,204		19,296	
	Subtotal				123,417		326,135		195,286	
Total			W	970,448	W	2,781,644	W	930,420	W	2,639,114

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5. Trade and Other Receivables

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

(in millions of Korean won)

	September 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,125,276	₩ 70,047	₩ 701,749	₩ 37,470
Loans	26,626	45,949	23,629	51,545
Other receivables	68,750	32,643	30,573	13,981
Guarantee deposits	20,105	40,746	29,316	20,158
Accrued income	6,770	6,905	3,536	4,517
Total	₩ 1,247,527	₩ 196,290	₩ 788,803	₩ 127,671

(b) Allowances for doubtful accounts for trade and other receivables (as a gross amount, before deduction of allowances for doubtful accounts) as of September 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

	September 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,380,418	₩ 299,456	₩ 912,089	₩ 215,901
Allowances:				
Trade receivables	(132,514)	(71,288)	(121,786)	(57,153)
Other receivables	(377)	(31,878)	(1,500)	(31,077)
Total allowances	(132,891)	(103,166)	(123,286)	(88,230)
Net trade and other receivables	₩ 1,247,527	₩ 196,290	₩ 788,803	₩ 127,671

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

(in millions of Korean won)

	September 30, 2022	September 30, 2021
Beginning balance	₩ 211,516	₩ 143,948
Loss (reversal) of impairment	24,541	9,888
Ending balance	₩ 236,057	₩ 153,836

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

6. Inventories

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

(in millions of Korean won)

	September 30, 2022			December 31, 2021		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 16,871	₩ (993)	₩ 15,878	₩ 15,559	₩ (1,100)	₩ 14,459
Finished goods	126,641	(10,800)	115,841	98,723	(12,271)	86,452
Half-finished goods	26,720	(1,086)	25,634	18,821	(1,876)	16,945
Work in progress	6,176	-	6,176	3,048	-	3,048
Raw materials	600,279	-	600,279	669,478	-	669,478
Materials	37,375	(6,732)	30,643	38,036	(6,760)	31,276
Supplies	52,054	-	52,054	47,772	-	47,772
By-products	5,125	-	5,125	6,531	-	6,531
Buildings under construction	31,045	-	31,045	5,926	-	5,926
Completed buildings	1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate	52,967	-	52,967	3,673	-	3,673
Goods in transit	32,964	-	32,964	36,216	-	36,216
Total	₩ 989,707	₩ (19,611)	₩ 970,096	₩ 946,909	₩ (22,007)	₩ 924,902

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

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories	₩ (246)	₩ (2,396)	₩ 3,393	₩ (281)
Loss on obsolescence of inventories	740	3,047	1,925	4,192
Total	₩ 494	₩ 651	₩ 5,318	₩ 3,911

7. Investments in Associates and Joint Ventures

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

(in millions of Korean won)

				September 30, 2022		December 31, 2021	
		Location	Principal operation	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.60 W	1,830	12.88 W	1,830
	KORAMCO Banpo PFV Co., Ltd. ^{1,7}	Korea	Real estate investment, development and rental business	18.95	5,306	18.95	5,306
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	Real estate investment, development and rental business	19.47	1,850	19.47	1,850
	KORAMCO Amsa PFV Co., Ltd. ^{1,2}	Korea	Real estate investment, development and rental business	-	-	17.84	1,159
	KOCREF 36 REIT ⁸	Korea	Real estate investment, development and rental business	21.01	15,000	21.01	15,000
	KOCREF 41 REIT ³	Korea	Real estate investment, development and rental business	26.47	39,568	-	-
	AndaStation Professional Investment Private REIT No. 1	Korea	Real estate investment, development and rental business	21.43	17,764	21.43	17,764
	Kiwoom Milestone Private REIT No. 16 ⁴	Korea	Real estate investment, development and rental business	-	-	45.50	15,000
	Cheongna Medipolis PFV Co., Ltd. ⁵	Korea	Real estate development and sales	56.74	17,022	56.74	17,022
	INNODIS Co., Ltd. ¹	Korea	Game, advertizing agency	19.64	55	19.60	55
	SJ BIO MED Co., Ltd. ¹	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	23.04	-	23.13	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	Real estate rental business	51.35	18,500	51.35	18,500
	Starfield Suwon Inc.	Korea	Real estate development and rental business	50.00	144,500	50.00	144,500
Total				W	261,395	W	237,986

¹The Company classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the invested company with its right to participate in the invested company's Board of Directors meetings in accordance with the agreement with shareholders.

²The Company reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the current quarter, and the ownership was liquidated in the nine-month period ended September 30, 2022.

³The Company reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended September 30, 2022.

⁴The Company reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Company determined it has a significant influence over the investee; this ownership was sold in the nine-month period ended

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September 30, 2022.

⁵The Company classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁶The Company classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

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

⁸The Company reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2021.

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), which are associates, and Starfield Suwon Inc. (900,000 shares for ₩45,000 million), which is a joint venture.

For the nine-month period ended September 30, 2022, the Company additionally acquired 138,706 common shares (₩29,489 million) of KOCREF 41 REIT through the issuance of new stocks, and reclassified its interest in the entity as investment in associates. The Company also disposed 99,000 preferred shares of the entity (₩7,920 million) and recognized ₩4,359 million of gain from disposal of investment in associates.

For the nine-month period ended September 30, 2022, the Company disposed of Kiwoom Milestone Private REIT No.16 and recognized gain of ₩15,603 million from disposal of investment in associates.

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8. Investments in subsidiaries

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

(in millions of Korean won)

	Location	Principal operation	September 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.	Türkiye	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	-
Cosmocore 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	1,527	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
				₩ 1,198,104		₩ 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 100.00% including preferred shares as of September 30, 2022 and December 31, 2021.

The Company newly established KT&G Taiwan Corporation and Mastern No.144 PFV Co., Ltd. during the year ended December 31, 2021, through capital investment of 19,341,920 shares (₩8,081 million), and 7,400,000 shares (₩37,000 million), respectively.

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(b) Impairment

The Company conducts a review of impairment indicators for investments in subsidiaries and, if there is an indicator, the Company estimates the recoverable amount and performs an impairment test.

The Company has recognized impairment losses for its investment in subsidiaries where impairment indicators have been identified, such as the book value of net assets being lower than the book value of investments due to continuous accumulation of operating losses and etc. Details of such impairment loss recognized for the periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 30, 2022	September 30, 2021	Method for evaluating recoverable amount
Cosmocos Co., Ltd.	₩ -	₩ 929	Fair value less costs to sell
SangSang Stay Inc.	3,292	5,860	Fair value less costs to sell
	₩ 3,292	₩ 6,789	

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

9. Property, Plant and Equipment

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

(in millions of Korean won)

	September 30, 2022	September 30, 2021
Beginning balance	₩ 1,128,957	₩ 1,139,630
Acquisition	104,953	88,077
Disposal/Impairment	(2,829)	(1,578)
Depreciation	(73,899)	(73,046)
Reclassification and others	(28,793)	(30,040)
Ending balance	₩ 1,128,389	₩ 1,123,043

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10. Intangible Assets

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

<i>(in millions of Korean won)</i>		September 30, 2022		September 30, 2021
Beginning balance	₩	97,363	₩	66,323
Acquisition		23,693		23,133
Disposal/Impairment		(418)		(362)
Amortization		(9,346)		(5,094)
Reclassification and others		231		(754)
Ending balance	₩	111,523	₩	83,246

11. Investment Properties

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

<i>(in millions of Korean won)</i>		September 30, 2022		September 30, 2021
Beginning balance	₩	1,128,470	₩	1,101,189
Acquisition		10,149		12,657
Disposal/Impairment		-		(538)
Depreciation		(19,956)		(19,691)
Reclassification and others		(64,601)		30,793
Ending balance	₩	1,054,062	₩	1,124,410

12. Right-of-use Assets

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

<i>(in millions of Korean won)</i>		September 30, 2022		September 30, 2021
Beginning balance	₩	22,644	₩	29,047
Acquisition		4,523		4,110
Disposal		(257)		(113)
Depreciation		(6,790)		(7,797)
Ending balance	₩	20,120	₩	25,247

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13. Assets Held for Sale

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

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

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

14. Borrowings

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

<i>(in millions of Korean won)</i>	Lender	September 30, 2022	December 31, 2021
Consumer credit agreements	NH Nonghyup Bank	₩ 297	₩ 437
	Hana Card	116	152
	Total	₩ 413	₩ 589

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings. No interest expense is incurred on payment guarantees.

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15. Employee Benefits

(a) Profit or loss recognized on employee benefits for the three-month and nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Defined benefit plans:				
Current service cost	₩ 7,948	₩ 23,843	₩ 7,704	₩ 25,563
Net interest on net defined benefit liabilities (assets)	(74)	(222)	239	601
Subtotal	7,874	23,621	7,943	26,164
Defined contribution plan:				
Contributions recognized as expense	1,347	4,068	1,239	4,037
Other long-term employee benefits:				
Current service cost, etc.	1,011	3,062	4,068	11,195
Termination benefits:				
Voluntary retirements, etc.	-	1,772	-	1,253
Total	₩ 10,232	₩ 32,523	₩ 13,250	₩ 42,649

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

(in millions of Korean won)

	September 30, 2022	December 31, 2021
Present value of defined benefit obligations	₩ 404,198	₩ 388,559
Fair value of plan assets	(387,667)	(399,695)
Total	₩ 16,531	₩ (11,136)

16. Refund Liabilities and Provisions

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

(in millions of Korean won)

	September 30, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 4,377	₩ -	₩ 4,915	₩ -
Refund liabilities	5,092	1,018	4,588	938
Provision for site restoration	132	30	111	30
Provision for financial guarantee	-	164	21	250
Provision for greenhouse gases	193	-	269	-
Total	₩ 9,794	₩ 1,212	₩ 9,904	₩ 1,218

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

(in millions of Korean won)

	September 30, 2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,915	₩ -	₩ (538)	₩ 4,377
Refund liabilities	5,526	584	-	6,110
Provision for site restoration	141	83	(62)	162
Provision for financial guarantee	271	-	(107)	164
Provision for greenhouse gases	269	-	(76)	193
Total	₩ 11,122	₩ 667	₩ (783)	₩ 11,006

(in millions of Korean won)

	September 30, 2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,464	₩ 1,651	₩ (1,575)	₩ 4,540
Refund liabilities	2,284	6,540	(2,833)	5,991
Provision for site restoration	8,807	67	(7,131)	1,743
Provision for financial guarantee	622	-	(263)	359
Provision for greenhouse gases	178	412	(178)	412
Total	₩ 16,355	₩ 8,670	₩ (11,980)	₩ 13,045

17. Real Estate Pre-sales Contract

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

(in millions of Korean won)

September 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 Briciel	June 2020	September 2023	67.12	₩ 791,406	₩ 750,278	₩ 503,611	₩ 258,736	₩ 226,524

¹Excludes sales revenue of ₩4,195 million of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of September 30, 2022.

²Excludes the cumulative cost for common infrastructure, amounting to ₩1,985 million.

(in millions of Korean won)

September 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	100	₩ 1,212,711	₩ 1,202,826	₩ 1,202,790	₩ 290,805	₩ 523,474
Suwon Hwaseo Park Prugio (Efficiency apartment)	October 2018	August 2021	100	₩ 112,049	₩ 107,809	₩ 106,006	₩ 25,897	₩ 65,210
Suwon Hwaseo Park Prugio (Commercial facility)	January 2021	August 2021	100	₩ 60,443	₩ 22,917	₩ 22,917	₩ 22,917	₩ 5,460
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	23.93	₩ 791,412	₩ 750,995	₩ 179,701	₩ 117,476	₩ 80,630
Total				₩ 2,176,615	₩ 2,084,547	₩ 1,511,414	₩ 457,095	₩ 674,774

¹Excludes the cumulative cost for common infrastructure, amounting to ₩54,652 million.

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

(in millions of Korean won)

September 30, 2022				
Construction project	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	₩ 503,611	₩ 303,460	₩ 204,689	₩ 4,538

(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 Briciel	₩ 244,875	₩ 227,360	₩ 20,715	₩ 3,200
Total	₩ 1,624,010	₩ 1,592,146	₩ 36,405	₩ 4,541

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(c) No Material changes in estimated total contract revenues and total contract costs have occurred for the nine-month period ended September 30, 2022. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sale contracts are based on the circumstances that have occurred until September 30, 2022 and subject to change in the future.

18. Selling and Administrative Expenses

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

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Salaries	₩ 71,451	₩ 214,033	₩ 66,147	₩ 200,246
Retirement and termination benefits	6,293	20,447	6,325	21,749
Employee welfare	10,445	28,891	12,149	32,260
Travel expenses	4,142	8,955	1,020	2,529
Communication cost	662	2,090	627	2,032
Utilities	3,573	9,387	3,121	8,411
Taxes and dues	474	23,642	(816)	26,030
Supplies	393	1,294	388	1,470
Rent	2,325	5,953	1,509	4,653
Depreciation	7,654	24,584	8,552	26,387
Amortization	4,588	9,256	1,845	5,081
Repairs and maintenance	1,568	3,468	1,915	4,919
Vehicles	961	2,816	886	2,614
Insurance	249	654	98	1,249
Commissions	39,150	113,585	31,242	98,214
Freight and custody	5,410	14,792	3,219	9,106
Conferences	689	1,855	391	1,251
Advertising	24,574	73,605	24,853	69,881
Education and training	1,287	2,765	626	2,427
Prizes and rewards	216	862	158	863
Research and development	7,333	15,330	8,412	27,720
Impairment loss(reversal) on trade receivables	25,334	24,865	(986)	10,983
Total	₩ 218,771	₩ 603,129	₩ 171,681	₩ 560,075

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19. Other Income and Expense

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

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Gain on foreign currency transaction	₩ 25,453	₩ 44,387	₩ 11,250	₩ 22,161
Gain on foreign currency translation	221,321	410,649	77,315	131,715
Gain on valuation of derivatives	-	-	-	667
Reversal of impairment loss on other receivables	-	1,539	622	1,892
Gain on disposal of property, plant and equipment	1,901	4,688	40	1,708
Gain on disposal of investment property	-	-	-	30
Gain on lease contract adjustments	-	3	14	43
Gain on disposal of assets held for sale	-	32,037	-	-
Gain on disposal of investments in associates and joint ventures	15,603	19,962	-	-
Miscellaneous income	5,555	10,847	2,499	5,899
Total	₩ 269,833	₩ 524,112	₩ 91,740	₩ 164,115

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

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Loss on foreign currency transaction	₩ 5,406	₩ 13,470	₩ 907	₩ 3,592
Loss on foreign currency translation	1,203	2,624	-	411
Loss on valuation of derivatives	42,499	71,460	10,969	22,774
Loss on impairment of other receivables	320	1,215	192	797
Loss on disposal of property, plant and equipment	586	801	1,087	1,430
Loss on impairment of property, plant and equipment	-	511	-	-
Loss on disposal of intangible assets	1	17	8	8
Loss on impairment of intangible assets	10	101	159	262
Loss on disposal of Investment Property	-	-	65	128
Loss on disposal of assets held for sale	-	1,218	-	-
Loss on impairment of investments in subsidiaries	371	3,292	1,028	6,789
Loss on lease contract adjustments	-	4	-	-
Donations	1,518	3,208	1,496	3,080
Miscellaneous loss	265	475	388	622
Total	₩ 52,179	₩ 98,396	₩ 16,299	₩ 39,893

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20. Finance Income and Costs

Finance income and cost for the three-month and nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Finance income:				
Interest income ¹	₩ 9,605	₩ 18,023	₩ 3,017	₩ 9,657
Dividend income	6,519	44,231	4,268	19,408
Gain on valuation of fair value through profit or loss	14,737	43,106	4,099	20,595
Total finance income	₩ 30,861	₩ 105,360	₩ 11,384	₩ 49,660
Finance cost:				
Interest expense	₩ 453	₩ 1,463	₩ 704	₩ 1,890
Loss on valuation of fair value through profit or loss	81	21,138	4,114	10,220
Other financial expense	-	10,300	-	-
Total finance cost	₩ 534	₩ 32,901	₩ 4,818	₩ 12,110
Net finance income	₩ 30,327	₩ 72,459	₩ 6,566	₩ 37,550

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 nine-month periods ended September 30, 2022 and 2021, are 27.08% and 26.64%, respectively.

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September 30, 2022 and 2021 (Unaudited)



22. Related Parties

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

Type	Name of entity	Location	Percentage of ownership (%)					
			September 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
	Cosmocos 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. ¹¹	Hong Kong	-	-	-	-	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	12.60	-	12.60	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	-	-	-	45.50	-	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

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

²The Company 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.

³The Company classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Company determined it has a significant influence over the investee with its right to participate in the investee's Board of Directors meetings in accordance with the agreement with shareholders.

⁴The Company reclassified the ownership as asset held for sale as sales contract was entered during the year ended December 31, 2021, and as the ownership was sold to the third-party in the nine-month period ended September 30, 2022, it is not included as a related parties.

⁵The Company reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the current quarter, and as the ownership was liquidated in the nine-month period ended September 30, 2022, it is not included as a related parties.

⁶The Company reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the investee with the increase in its ownership percentage, following the disproportionate capital decrease of the investee during the year ended December 31, 2021.

⁷The Company reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Company determined it has a significant influence over the investee; this ownership was sold in the nine-month period ended September 30, 2022, and is therefore not included as a related party.

⁸The Company classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁹ The Company classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

¹⁰The Company reclassified the ownership as investment in associates, as the Company obtained the ability to exercise significant influence over the investee with the increase in its ownership percentage, following the disproportionate capital decrease of the investee during the year ended December 31, 2021.

¹¹As the ownership was liquidated in the nine-month period ended September 30, 2022, it is not included as a related parties.

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(b) The Company conducts transactions with related parties, such as sales of goods and provision of services, and etc. Details of transactions with related parties for the three-month and nine-month periods ended September 30, 2022 and 2021 are as follows:

① Sales and other income

(in millions of Korean won)

Type	Name of entity	September 30, 2022		September 30, 2021	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Subsidiaries	Korea Ginseng Corporation	₩ 3,319	₩ 8,039	₩ 2,118	₩ 6,488
	Yungjin Pharm. Co., Ltd.	226	437	78	251
	Tae-A Industrial Co., Ltd.	113	336	112	350
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	2,295	9,708	1,481	7,667
	Korea Tabacos do Brasil Ltda.	1	3	1	3
	KT&G Rus L.L.C. ¹	19,393	45,096	8,533	29,810
	KT&G USA Corporation	-	-	29,350	118,231
	Cosmocore Co., Ltd.	10	22	27	114
	PT KT&G Indonesia ¹	202	471	272	785
	SangSang Stay Inc.	1,215	3,657	1,200	3,601
	KT&G Global Rus L.L.C. ¹	51	227	11	31
	Gwacheon Sangsang PFV, Inc.	-	20,824	-	-
	KGCyebon Corporation	6	16	4	14
	KGC Life&Gin Co., Ltd.	19	57	20	60
	PT Trisakti Purwosari Makmur ¹	9,753	32,109	6,478	17,013
	KT&G Taiwan Corporation	3,193	3,364	-	-
Associates	KOCREF 36 REIT	-	600	-	-
	KOCREF 41 REIT	-	822	-	-
	AndaStation Professional Investment Private REIT No.1	473	473	-	-
	Kiwom Milestone Private REIT No.16	606	1,399	620	1,212
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	-	648	-	630
Other	KORAMCO Ocheon PFV Co., Ltd.	-	-	-	18
Total		₩ 40,875	₩ 128,308	₩ 50,305	₩ 186,278

¹Excludes impairment loss of ₩14,673 million and ₩2,002 million in relation to the related parties for the nine-month periods ended September 30, 2022 and 2021.

② Purchases and other expenses

(in millions of Korean won)

Type	Name of entity	September 30, 2022		September 30, 2021	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Subsidiaries	Korea Ginseng Corporation	₩ 406	₩ 1,114	₩ 345	₩ 1,007
	Yungjin Pharm. Co., Ltd.	31	277	7	336
	Tae-A Industrial Co., Ltd.	7,869	22,311	6,299	18,526
	KT&G Rus L.L.C.	-	-	-	1
	Cosmocore Co., Ltd.	261	278	245	260
	SangSang Stay Inc.	64	126	18	118
	KGCyebon Corporation	769	1,181	44	135
	KGC Life&Gin Co., Ltd.	1	8	6	8
	PT Trisakti Purwosari Makmur	-	7	-	-
	INNODIS Co., Ltd.	96	626	775	1,399
Joint ventures	Starfield Suwon Inc.	-	68	-	-
Total		₩ 9,497	₩ 25,996	₩ 7,739	₩ 21,790

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

(in millions of Korean won)

Type	Name of entity	September 30, 2022		December 31, 2021	
		Receivables	Payables	Receivables	Payables
Subsidiaries	Korea Ginseng Corporation	₩ 1,356	₩ 2,083	₩ -	₩ 2,022
	Yungjin Pharm. Co., Ltd.	218	51	-	48
	Tae-A Industrial Co., Ltd.	-	7,474	-	4,400
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. ¹	70,127	-	49,596	-
	Korea Tabacos do Brasil Ltda. ^{1,2}	121	-	118	-
	KT&G Pars ^{1,2}	44,526	-	44,526	-
	KT&G Rus L.L.C. ¹	98,841	-	40,213	-
	KT&G USA Corporation ¹	53,094	234	53,094	297
	Cosmococ Co., Ltd.	-	17	-	-
	SangSang Stay Inc.	-	11	-	-
	PT KT&G Indonesia ^{1,2,3}	35,280	-	28,745	-
	KT&G Global Rus L.L.C. ¹	164	-	254	-
	Gwacheon Sangsang PFV. Inc.	20,824	-	-	-
	KGCyebon Corporation	-	8,515	-	8,949
	KGC Life&Gin Co., Ltd.	-	115	-	135
	PT Trisakti Purwosari Makmur ¹	35,684	-	36,835	-
	KT&G Taiwan Corporation	2,127	-	-	-
Associates	AndaStation Professional Investment Private REIT No.1	-	-	481	-
	INNODIS Co., Ltd.	-	35	-	-
Other	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
Total		₩ 362,362	₩ 18,535	₩ 253,880	₩ 15,851

¹Presented in total amount before deducting loss allowance of ₩160,079 million and ₩145,406 million as of September 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 nine-month periods ended September 30, 2022 and 2021 is as follows:

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

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(e) Funded transactions with related parties for the nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	September 30, 2022			September 30, 2021		
		Equity investment	Repayment of lease liabilities	Equity recovery	Equity investment	Repayment of lease liabilities	
Subsidiaries	KT&G Taiwan Corporation	₩ -	₩ -	₩ -	₩ 3,214	₩ -	
	KGCyebon Corporation	-	453	-	-	498	
Associates	KOCREF 41 REIT	29,489	-	12,279	-	-	
	AndaStation Professional Investment Private REIT No.1	-	-	-	17,764	-	
	Kiwoom Milestone Private REIT No.16	-	-	30,603	-	-	
Joint ventures	Starfield Suwon Inc. ¹	-	-	-	45,000	-	
Others	KORAMCO Ocheon PFV Co., Ltd. ²	-	-	24,353	-	-	
	KORAMCO Amsa PFV Co., Ltd. ³	-	-	1,749	-	-	
Total		₩ 29,489	₩ 453	₩ 68,984	₩ 65,978	₩ 498	

¹The Company decided during the Board of Directors meeting to acquire 900,000 shares (₩45,000 million) of Starfield Suwon Inc. 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.

²The Company reclassified the ownership as asset held for sale as the sales contract was made for the year ended December 31, 2021, and as the ownership was sold to the third-party in the nine-month period ended September 30, 2022, it is not included as a related party.

³The Company reclassified the ownership as assets held for sale as the resolution for dissolution was reached at shareholders' meeting during the current quarter, and as the ownership was liquidated in the nine-month period ended September 30, 2022, it is not included as a related party.

(f) As of September 30, 2022, KT&G USA Corporation receives a payment guarantee from Federal Insurance Company (executed amount: 0), for import clearance. The Company has a recourse liability up to the limit of USD 125,000 thousand to Federal Insurance Company and others (Note 24 (c)).

(g) As of September 30, 2022, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 150,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan (Note 24 (c)).

(h) During the September 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 currently operates Starfield Suwon Inc. Corporation after having established the joint venture with Shinsegae Property under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for five years from the date Starfield Suwon's operation is approved. In the event that the Company or the joint venturer wishes 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 capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of September 30, 2022, the outstanding contribution amount is ₩83,978 million, and the contribution will be made until the related land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

(k) The Company is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.

(l) The Company is in a capital call agreement with KORAMCO Europe Private REIT 3-2 Fund. However, the Company considers the possibility of exercising such agreement to be considerably low, as it will only be exercised if the trustee defaults on the currency swap/forward contract.

(m) The Company has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Company dispose the shares by obtaining the approvals from the Board of Directors and Shareholders, the Company has a pre-emptive right to purchase the shares under the condition notified by those shareholders. However, the pre-emptive right to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to the Company.

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

		<i>(in millions of Korean won)</i>	
		September 30, 2022	September 30, 2021
Short-term and long-term employee benefits	₩	14,665	₩ 17,556
Retirement benefits		1,833	1,806
Total	₩	16,498	₩ 19,362

23. Risk Management and Fair Value of Financial Instruments

In relation to the financial instruments, the Company is exposed to the 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 eliminate, avoid and reduce them to an acceptable level. The Company prepares and manages 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 the compliance with the risk management policies and procedures, as well as the highest level of risk exposures it can manage. The Company's overall financial risk management strategy is same as the previous fiscal year's.

(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 flows of the Company's financial instruments. The Company manages and controls the market risk exposure to be within the acceptable range, while optimizing revenue.

③ 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 management internally measures the risk of currency fluctuations on a regular basis.

④ Price risk

The Company is exposed to other price risks related to fluctuations of fair values and future cash flows of assets measured at fair value through other comprehensive income or loss, that may be caused by the changes in market prices of listed stocks the Company invests in. Company management regularly measures the risk that the fair values or future cash flows may fluctuate due to the changes in market prices for the listed stocks the Company invests in. Material investments in the Company's portfolio are individually managed, for which acquisitions and disposals are required to be approved by the Company management.

⑤ Interest rate risk

The Company is exposed to the risk of interest rate fluctuation related to its borrowings, trade payables and other payables, and lease liabilities. Company management maintains an appropriate balance between the fixed and variable interest borrowings by regularly measuring the risk that the fair values or future cash flows of financial instruments may fluctuate due to the changes in market interest rate. The effect of interest rate change on fair values or future cash flows of financial liabilities is immaterial considering the volume of the variable interest rate liability as of September 30, 2022.

(b) Credit risk

The Company is exposed to credit risk that one of the contracting parties to the financial instrument may incur financial losses to the other party due to the failure of performing its obligations. To manage such credit risk, the Company management only transacts with parties over certain level of creditworthiness, and establishes and manages the credit enhancement policies and procedures for financial assets. The Company evaluates the creditworthiness of new transacting parties using the financial information disclosed upon entering the contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Company then receives collaterals and/or payment guarantees as necessary. In addition, the Company periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay.

As of September 30, 2022 and December 31, 2021, the carrying amount of financial assets is the maximum exposure to credit risk.

(c) Liquidity risk

The Company is exposed to liquidity risk caused by difficulties in meeting its obligations related to financial liabilities that are settled by transferring financial assets such as cash. To manage such liquidity risk, the Company management establishes the short and mid-to-long term financial management plans and continuously analyzes and reviews the budgeted and actual cash outflows, in order to counterpose the maturities of financial liabilities and assets. Company management deems the financial liabilities are redeemable by the cash flows from operating activities and cash inflows from financial assets.

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

(in millions of Korean won)

		September 30, 2022		December 31, 2021
Financial assets:				
Financial assets fair value through profit or loss ¹	₩	1,471,551	₩	1,672,588
Financial assets fair value through other comprehensive income or loss		153,552		203,172
Derivative assets		-		580
Financial assets measured at amortized cost				
Cash and cash equivalents ¹		365,030		181,880
Other financial assets		190,913		340,907
Trade and other receivables		1,443,817		916,474
Long-term deposits		1,627,911		1,250,468
Subtotal		3,627,671		2,689,729
Total financial assets	₩	5,252,774	₩	4,566,069
Financial liabilities:				
Derivative liabilities	₩	27,813	₩	908
Financial liabilities measured at amortized cost				
Short-term borrowings		413		589
Trade and other payables		507,972		475,267
Lease liabilities		18,840		22,220
Subtotal		527,225		498,076
Total financial liabilities	₩	555,038	₩	498,984

¹As of September 30, 2022, the money market trust amounting to ₩646,124 million (December 31, 2021: ₩408,723 million) that is included in cash equivalents is 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 the market's observable inputs to the extent possible. Fair value is classified within the fair value hierarchy, based on the inputs used in valuation techniques 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 values of financial instruments measured by each fair value hierarchy as of September 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		September 30, 2022			
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss ¹	₩ 1,471,551	₩ -	₩ 1,150,642	₩ 320,909	
Fair value through other comprehensive income or loss	153,552	144,048	-	9,504	
Total financial assets	₩ 1,625,103	₩ 144,048	₩ 1,150,642	₩ 330,413	
Derivative liabilities	₩ 27,813	₩ -	₩ 27,813	₩ -	

¹As of September 30, 2022, the money market trust amounting to ₩646,124 million that is included in cash equivalents is 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, the money market trust amounting to ₩408,723 million that is included in cash equivalents is classified as the financial assets measured at fair value through profit or loss.

There is no movement between the levels of fair value hierarchy during the nine-month periods ended September 30, 2022 and 2021.

As of September 30, 2022 and December 31, 2021, the fair value of investment trust equity security classified as financial assets at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and the discounted cash flow method, 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 nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
Beginning balance	₩	312,642	₩	277,264
Acquisition		58,180		55,170
Disposal		(18,476)		(20,421)
Transfers		(28,300)		(30,100)
Changes in fair value		6,367		3,383
Ending balance	₩	330,413	₩	285,296

(f) Net gain or loss by each financial instrument category for the nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 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	₩ -	₩ -	₩ -	₩ 18,023	₩ -	₩ 18,023
Dividend income	10,646	8,819	-	-	-	19,465
Gain or loss on valuation	21,968	-	(71,460)	-	-	(49,492)
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(1,463)	(1,463)
Impairment reversal(loss)	-	-	-	(24,541)	-	(24,541)
Total	₩ 32,614	₩ (1,481)	₩ (71,460)	₩ (6,518)	₩ (1,463)	₩ (48,308)
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ (20,400)	₩ -	₩ -	₩ -	₩ (20,400)

(in millions of Korean won)

	September 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	₩ -	₩ -	₩ -	₩ 9,657	₩ -	₩ 9,657
Dividend income	8,432	9,116	-	-	-	17,548
Gain or loss on valuation	10,375	-	(22,107)	-	-	(11,732)
Gain on disposal	-	-	-	-	43	43
Interest expense	-	-	-	-	(1,890)	(1,890)
Impairment reversal(loss)	-	-	-	(9,888)	-	(9,888)
Total	₩ 18,807	₩ 9,116	₩ (22,107)	₩ (231)	₩ (1,847)	₩ 3,738
Other comprehensive income (loss) before tax:						
Net change in fair value	₩ -	₩ 16,444	₩ -	₩ -	₩ -	₩ 16,444

24. Contingent Liabilities and Commitments
(a) Litigation cases

As of September 30, 2022, the Company has 7 pending litigations where the Company is in the position of the defendant, and the litigation amounts amount to ₩59,932 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Company as of September 30, 2022.

(b) Commitments with financial institutions

The Company's major arrangements with financial institutions as of September 30, 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	100,000
Derivatives trading ¹	KB Kookmin Bank and four others	USD	334,500
Net cash overdraft	NH Nonghyup Bank and two others	KRW	400,000

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

As of September 30, 2022, the Company has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 119,150 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Payment guarantees and collaterals provided by other parties to the Company as of September 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	532,212	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	26,643	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 September 30, 2022, KT&G USA Corporation receives a payment guarantee from Federal Insurance Company (executed amount: 0), for import clearance. The Company has a recourse liability up to the limit of USD 125,000 thousand to Federal Insurance Company and others.

As of September 30, 2022, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 150,000 thousand), for import clearance. The Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

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Payment guarantees provided by the Company to other parties as of September 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 Briciel	Shinhan Bank	₩ 76,720 ₩	38,876	Loan guarantee for the intermediate payment of off-plan sales construction

The Company provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 14).

Assets pledged as collaterals as of September 30, 2022 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Investment property	₩ 474,697 ₩	₩ 27,575 ₩	₩ 29,665 ₩	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	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	₩ 490,910 ₩	₩ 118,172 ₩	₩ 45,878 ₩		

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

(in millions of Korean won)

		September 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 the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Company inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Company, in whole, after 25 years from each date of deposit. The Company recognized ₩1,627,911 million in long-term deposits for MSA Escrow Fund as of September 30, 2022 (as of December 31, 2021: ₩1,250,468 million), and they consist of T-Notes, T-bills, and demand deposits.

The Company currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio for the ended December 31, 2018. The disposal of the shares is limited for five years from the date Starfield Suwon's operation is approved. In the event that the Company or the joint venturer wishes 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 September 30, 2022, the Company is in a capital call agreement in relations to the Company's overseas real estate funds. However, the Company considers the possibility of exercising such agreement to be considerably low, as it will only be exercised if the trustee defaults on the currency swap/forward contract.

The Company has entered into a capital contribution agreement in relations to debt instruments of Smilegate-Newdeal fund, and etc., with the ceiling of ₩23,000 million in total. As of September 30, 2022, the outstanding contribution amount is ₩4,150 million, and the detailed timeline for contribution is yet to be determined.

The Company has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of September 30, 2022, the outstanding contribution amount is ₩83,978 million, and the contribution will be made until the related land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

The Company is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.

The Company has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Company's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Company dispose the shares by obtaining the approvals from the Board of Directors and Shareholders, the Company has a pre-emptive right to purchase the shares under the condition notified by those shareholders. However, the pre-emptive right to purchase the shares is not an obligation, and the other investors will have delegated their right to dispose the shares, to

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the Company.

As of September 30, 2022, the Company is being provided with commitments 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 Engineering Guarantee Insurance Cooperative, in connection with the construction of Suwon Hwaseo Prugio Briciel.

For the period ended September 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 September 30, 2022, the Company and KT&G USA Corporation received a notification from the US Department of Justice (DOJ) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of September 30, 2022.

The spread of Covid-19 has a significant impact on domestic and international economies. This may have a negative impact on productivity, sales, and collection of existing receivables, which might subsequently have an adverse impact on the financial position and financial performance of the Company. The ultimate impact of uncertainty fluctuations caused by Covid-19 on the Company's business, financial position and financial performance is unpredictable as of September 30, 2022.

The Company is engaged in manufacturing and selling tobacco in Russia. As of September 30, 2022, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Company's business in Russia and its financial position therein cannot be reasonably estimated as of September 30, 2022.

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25. Cash Flows

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

(in millions of Korean won)

	September 30, 2022		September 30, 2021	
Profit for the nine-month period ended September 30	₩	1,014,483	₩	777,862
Adjustments:				
Employee welfare		3,135		11,953
Retirement benefits		23,621		26,164
Loss (reversal) on valuation or obsolescence of inventories		651		3,911
Depreciation		100,645		100,534
Amortization		9,346		5,094
Loss on impairment of trade and other receivables		24,541		9,888
Loss on foreign currency translation		2,624		411
Loss on valuation of derivatives		71,460		22,774
Loss on disposal of property, plant and equipment		801		1,430
Loss on impairment of property, plant and equipment		511		-
Loss on disposal of intangible assets		17		8
Loss on impairment of intangible assets		101		262
Loss on disposal of investment property		-		128
Loss on disposal of assets held for sale		1,218		-
Loss on impairment of investments in subsidiaries		3,292		6,789
Other expenses, etc.		292		2,796
Finance cost		32,901		12,110
Income tax expense		376,684		282,535
Gain on foreign currency translation		(410,649)		(131,715)
Gain on valuation of derivatives		-		(667)
Gain on disposal of property, plant and equipment		(4,688)		(1,708)
Gain on disposal of investment property		-		(30)
Gain on disposal of assets held-for-sale		(32,037)		-
Gain on disposal of investments in associates		(19,962)		-
Other income, etc.		(1,865)		(282)
Finance income		(105,360)		(49,660)
Changes in working capital:				
Increase (decrease) in trade and other receivables		(415,752)		98,672
Increase in derivatives		(43,974)		(3,496)
Decrease in inventories		25,431		27,637
Decrease in accrued tobacco excise and other taxes		99,746		37,345
Increase in advance payments		(8,952)		(24,044)
Decrease in prepaid expenses		4,670		14,455
Increase in trade and other payables		77,764		71,886
Increase (decrease) in advance receipts		2,480		(24,486)
Increase (decrease) in tobacco excise and other taxes payable		(12,465)		50,503
Decrease in provision for site restoration		(62)		(7,132)
Increase (decrease) in net defined benefit liabilities		2,562		(667)
Cash generated from operations	₩	823,210	₩	1,321,260

26. Subsequent Event

The Company plans to issue new stocks worth of ₩30 billion to a subsidiary wholly owned by the Company, SangSang Stay Inc., in January 2023 with consistent share percentages; such resolution was reached during the board of directors meeting on November 3, 2022.

The Company plans to issue new stocks in three intervals of which the total worth will be USD 89,526 thousand, to a subsidiary wholly owned by the Company, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., over the period of November 2022 to early 2024 with consistent share percentages; such resolution was reached during the board of directors meeting on November 3, 2022.

The Company decided to acquire 3,700,000 shares of its own stock, which will be acquired within the stock market; such resolution was reached during the board of directors meeting on November 3, 2022.