



# **KT&G Corporation and Its Subsidiaries**

Interim Consolidated Financial Statements

For the nine-month period ended September 30, 2022

(Unaudited)

(With the report on review of interim consolidated financial statements)

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## **Report on review of interim consolidated 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 consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of September 30, 2022, and the related interim consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2022, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the interim consolidated financial statements**

Management is responsible for the preparation and presentation of these interim consolidated 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 consolidated 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 consolidated financial statements based on our review.

We conducted our review in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing ("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 consolidated financial statements are not prepared, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

### **Other matters**

The interim consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2021, interim consolidated statement of changes in equity and interim consolidated 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.

The accompanying interim consolidated statement of comprehensive income for the nine-month period ended September 30, 2021, on which another auditor expressed an unqualified review conclusion, did not reflect adjustments described in Note 25. The interim consolidated statements of comprehensive

income for the three-month and nine-month periods ended September 30, 2021, presented for comparative purposes, reflect the adjustments described in Note 25.

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

# **KT&G Corporation and Its Subsidiaries**

## **Interim Consolidated Financial Statements** for the three-month and nine-month periods ended September 30, 2022 and 2021

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**As of September 30, 2022 (Unaudited) and December 31, 2021**



(in Korean won)

	Notes	September 30, 2022	December 31, 2021
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	22,23	₩ 1,589,836,187,666	₩ 946,570,845,404
Current other financial assets	22,23	330,448,196,382	457,056,795,720
Current financial assets at fair value through profit or loss	22	523,512,998,627	965,384,441,544
Trade and other receivables	5,16,21,22	1,589,849,246,822	1,012,741,494,275
Derivative assets	22,23	-	580,339,743
Inventories	6	2,353,049,984,875	2,375,380,884,539
Refund assets and others		1,066,122,270	1,795,047,848
Accrued tobacco excise and other taxes		312,189,230,314	324,920,390,897
Advance payments	23	57,094,511,916	98,044,889,263
Prepaid expenses		52,568,533,084	53,262,710,533
Assets held for sale	4,12,21	-	20,123,696,708
<b>Total current assets</b>		<b>6,809,615,011,956</b>	<b>6,255,861,536,474</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	32,830,070,628	9,001,281,420
Long-term deposits in MSA Escrow Fund	22,23	1,627,910,859,635	1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	22,23	308,450,067,618	304,815,651,866
Long-term trade and other receivables	5,22	112,183,020,931	94,759,875,704
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23	210,705,627,670	228,398,434,797
Investments in associates and joint ventures	4,7,21,23	273,076,142,739	242,991,736,041
Property, plant and equipment	8,23	1,776,342,027,194	1,741,041,767,893
Intangible assets	9	160,397,108,086	145,718,649,536
Investment properties	10,23	1,088,416,674,583	1,150,979,933,340
Right-of-use assets	11	33,916,888,461	36,444,918,106
Long-term advance payments	23	141,906,413,564	104,559,554,973
Long-term prepaid expenses		8,720,420,276	8,538,939,470
Deferred tax assets	20	46,687,362,296	52,555,448,304
Net defined benefit assets	14	-	11,135,956,233
<b>Total non-current assets</b>		<b>5,821,542,683,681</b>	<b>5,381,409,657,726</b>
<b>Total assets</b>		<b>₩ 12,631,157,695,637</b>	<b>₩ 11,637,271,194,200</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	₩ 84,386,540,241	₩ 75,432,490,744
Current portion of long-term borrowings	13,22,23	16,713,764,075	2,166,480,000
Trade and other payables	22,23	1,095,673,026,510	971,120,364,253
Current lease liabilities	22	14,722,006,367	17,180,641,274
Derivative liabilities	22,23	27,813,383,553	907,708,348
Advance receipts	16	22,479,792,520	21,918,095,726
Current refund liabilities and provisions	15,23	23,213,341,159	26,130,472,136
Current tax liabilities	20	293,601,848,712	236,397,106,383
Tobacco excise and other taxes payables		841,145,470,564	712,693,018,015
<b>Total current liabilities</b>		<b>2,419,749,173,701</b>	<b>2,063,946,376,879</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13,22,23	59,632,479,468	53,195,098,748
Long-term trade and other payables	21,22,23	82,814,989,932	57,433,928,854
Long-term lease liabilities	22	18,000,785,102	19,377,131,556
Long-term advance receipts	16	3,978,174,213	5,077,077,062
Net defined benefit liabilities	14,21	86,722,388,586	57,735,568,500
Long-term refund liabilities and provisions	15,23	4,311,534,079	5,221,776,727
Deferred tax liabilities	20	149,151,485,676	148,104,701,940
Non-controlling interests liabilities	22	19,835,046,205	18,317,380,882
<b>Total non-current liabilities</b>		<b>424,446,883,261</b>	<b>364,462,664,269</b>
<b>Total liabilities</b>		<b>₩ 2,844,196,056,962</b>	<b>₩ 2,428,409,041,148</b>

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		4,497,785,722	4,497,785,722
Treasury shares		(879,981,829,569)	(879,981,829,569)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		6,889,140,623,691	6,490,161,242,572
Retained earnings		<u>2,241,765,978,566</u>	<u>2,060,255,463,296</u>
<b>Equity attributable to owners of the Parent Company</b>		<u><b>9,739,276,097,316</b></u>	<u><b>9,158,786,200,927</b></u>
<b>Non-controlling interest</b>		47,685,541,359	50,075,952,125
<b>Total equity</b>	₩	<u><b>9,786,961,638,675</b></u>	₩ <u><b>9,208,862,153,052</b></u>
<b>Total liabilities and equity</b>	₩	<u><b>12,631,157,695,637</b></u>	₩ <u><b>11,637,271,194,200</b></u>

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Comprehensive Income**  
For the three-month and nine-month periods ended September 30, 2022 and 2021 (Unaudited)



(in Korean won)

		September 30, 2022		September 30, 2021	
	Notes	Three-month period ended	nine-month period ended	Three-month period ended	nine-month period ended
<b>Continuing operations</b>					
Sales	4,16,21 W	1,624,596,549,580 W	4,444,663,137,560 W	1,494,613,429,825 W	3,980,842,381,071
Cost of sales		<u>(791,667,237,996)</u>	<u>(2,156,578,856,700)</u>	<u>(689,801,692,342)</u>	<u>(1,776,614,789,612)</u>
Gross profit		832,929,311,584	2,288,084,280,860	804,811,737,483	2,204,227,591,459
Selling and administrative expense	17,21	<u>(427,317,863,980)</u>	<u>(1,221,836,699,335)</u>	<u>(387,785,750,776)</u>	<u>(1,149,608,943,137)</u>
Operating profit	4	405,611,447,604	1,066,247,581,525	417,025,986,707	1,054,618,648,322
Other income	18,21,22	268,250,417,969	533,396,084,983	95,764,090,321	174,104,939,616
Other expenses	18,21,22	(63,045,251,959)	(133,912,736,616)	(17,545,814,940)	(48,734,375,976)
Finance income	19,21,22	31,635,685,427	85,432,098,313	10,822,229,709	48,679,348,719
Finance costs	19,22	(9,330,453,544)	(56,598,247,240)	(11,031,838,583)	(21,475,094,468)
Share of net profit(loss) of associates and joint ventures	7	15,665,533,298	30,457,555,485	(140,794,318)	(1,052,825,572)
Profit before income tax		648,787,378,795	1,525,022,336,450	494,893,858,896	1,206,140,640,641
Income tax expense	20	<u>(184,624,754,531)</u>	<u>(452,825,407,114)</u>	<u>(140,302,863,386)</u>	<u>(340,175,468,742)</u>
Profit from continuing operations		464,162,624,264	1,072,196,929,336	354,590,995,510	865,965,171,899
<b>Discontinued operations</b>					
Profit (loss) from discontinued operations	25	<u>(1,022,485,845)</u>	<u>(6,835,816,316)</u>	<u>4,987,310,508</u>	<u>12,617,262,477</u>
Profit for the period	W	<u>463,140,138,419 W</u>	<u>1,065,361,113,020 W</u>	<u>359,578,306,018 W</u>	<u>878,582,434,376</u>
<b>Other comprehensive income (loss) for the period after income tax</b>					
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities	W	(307,880,165) W	(790,399,616) W	(113,579,094) W	9,381,177,447
Gain (loss) on valuation of fair value through other comprehensive income or loss	22	5,929,180,799	9,411,139,411	(5,907,405,360)	15,320,292,538
Capital changes in equity method	7	159,534,182	7,896,449	(3,159,102)	(373,050)
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations		19,584,327,812	80,168,105,998	16,534,409,515	25,617,439,134
Capital changes in equity method	7	<u>(154,739,239)</u>	<u>(154,739,239)</u>	-	1,288,604
		25,210,423,389	88,642,003,003	10,510,265,959	50,319,824,673
Total comprehensive income for the period	W	<u>488,350,561,808 W</u>	<u>1,154,003,116,023 W</u>	<u>370,088,571,977 W</u>	<u>928,902,259,049 W</u>
<b>Profit for the period is attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations	W	465,150,993,651 W	1,074,569,835,799 W	356,378,441,542 W	870,671,201,201 W
Profit (loss) from discontinued operations	25	<u>(1,022,485,845)</u>	<u>(6,835,816,316)</u>	<u>4,987,310,508</u>	<u>12,617,262,477</u>
Profit attributable to owners of the Parent Company		<u>464,128,507,806</u>	<u>1,067,734,019,483</u>	<u>361,365,752,050</u>	<u>883,288,463,678</u>
Non-controlling interests					
Loss from continuing operations		(988,369,387)	(2,372,906,463)	(1,787,446,032)	(4,706,029,302)
Profit (loss) from discontinued operations	25	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss attributable to non-controlling interests		<u>(988,369,387)</u>	<u>(2,372,906,463)</u>	<u>(1,787,446,032)</u>	<u>(4,706,029,302)</u>
Total	W	<u>463,140,138,419 W</u>	<u>1,065,361,113,020 W</u>	<u>359,578,306,018 W</u>	<u>878,582,434,376 W</u>
<b>Total comprehensive income for the period attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations	W	493,913,705,699 W	1,169,279,486,185 W	368,027,951,002 W	921,108,293,687 W
Profit (loss) from discontinued operations	25	<u>(4,568,504,304)</u>	<u>(12,885,959,396)</u>	<u>3,850,885,950</u>	<u>12,617,262,477</u>
Total comprehensive income attributable to owners of the Parent Company		<u>489,345,201,395</u>	<u>1,156,393,526,789</u>	<u>371,878,836,952</u>	<u>933,725,556,164</u>
Non-controlling interests					
Loss from continuing operations		(994,639,587)	(2,390,410,766)	(1,790,264,975)	(4,823,297,115)
Profit from discontinued operations	25	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss attributable to non-controlling interests		<u>(994,639,587)</u>	<u>(2,390,410,766)</u>	<u>(1,790,264,975)</u>	<u>(4,823,297,115)</u>
Total	W	<u>488,350,561,808 W</u>	<u>1,154,003,116,023 W</u>	<u>370,088,571,977 W</u>	<u>928,902,259,049 W</u>
<b>Earnings per share</b>					
Basic and diluted earnings per share					
From continuing operations	W	3,877 W	8,956 W	2,872 W	7,017
From discontinued operations		<u>(9)</u>	<u>(57)</u>	<u>40</u>	<u>102</u>
	W	3,868 W	8,899 W	2,912 W	7,119

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



# KT&G Corporation and Its Subsidiaries



## Interim Consolidated 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	Owners of the parent	Non-controlling interest	Total equity
<b>Balance as of January 1, 2021</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 5,977,643,096,280	₩ 2,102,474,813,562	₩ 9,036,851,140,891	₩ 54,720,515,354	₩ 9,091,571,656,245
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	883,298,463,678	883,298,463,678	(4,706,029,302)	878,582,434,376
Profit(loss) for the period	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss) for the period:	-	-	-	-	-	9,379,251,968	9,379,251,968	1,925,479	9,381,177,447
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	15,320,292,538	-	15,320,292,538	-	15,320,292,538
Transfer from gain on disposal of fair value through other comprehensive income or loss	-	-	-	-	3,614,169,453	(3,614,169,453)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	25,736,632,426	-	25,736,632,426	(119,193,292)	25,617,439,134
Capital changes in equity method	-	-	-	-	915,554	-	915,554	-	915,554
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	44,672,009,971	5,755,082,515	50,437,092,486	(117,267,813)	50,319,824,673
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	44,672,009,971	889,053,546,193	933,725,556,164	(4,823,297,115)	928,902,289,049
Dividends	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)	-	(595,583,630,400)
Transfer to other reserves	-	-	-	-	464,637,806,718	(464,637,806,718)	-	-	-
<b>Balance as of September 30, 2021</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (531,618,093,579)	₩ 528,894,053,906	₩ 6,486,952,912,960	₩ 1,931,306,922,637	₩ 9,374,993,066,655	₩ 49,897,218,239	₩ 9,424,890,284,894
<b>Balance as of January 1, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,490,161,242,572	₩ 2,060,255,463,296	₩ 9,159,786,200,927	₩ 50,075,952,125	₩ 9,208,862,133,952
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	-	1,057,734,019,483	1,057,734,019,483	(2,372,906,463)	1,055,361,113,020
Profit(loss) for the period	-	-	-	-	-	(776,732,334)	(776,732,334)	(13,667,262)	(790,369,616)
Other comprehensive income (loss) for the period:	-	-	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	9,411,139,411	-	9,411,139,411	-	9,411,139,411
Transfer from gain on disposal of fair value through other comprehensive income or loss	-	-	-	-	8,330,221,000	(8,330,221,000)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	80,171,943,019	-	80,171,943,019	(3,837,021)	80,168,105,998
Capital changes in equity method	-	-	-	-	(146,842,790)	-	(146,842,790)	-	(146,842,790)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	97,766,460,640	(9,106,953,334)	88,659,507,306	(17,504,303)	88,642,003,003
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	97,766,460,640	1,058,627,066,149	1,156,393,526,789	(2,390,410,766)	1,154,003,116,023
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	(575,903,630,400)
Transfer to other reserves	-	-	-	-	301,212,920,479	(301,212,920,479)	-	-	-
<b>Balance as of September 30, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,889,140,623,691	₩ 2,241,755,978,566	₩ 9,739,276,097,316	₩ 47,685,541,359	₩ 9,786,961,638,675

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated 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
<b>Net cash flows provided by operating activities</b>			
Cash generated from operations	24	₩ 748,547,531,639	₩ 1,203,893,510,104
Income taxes paid		1,139,263,548,698	1,612,648,324,327
		(390,716,017,059)	(408,754,814,223)
<b>Net cash flows provided by (used in) investing activities</b>			
Interest received		430,928,994,570	(477,091,114,494)
Dividends received		18,051,224,599	7,992,754,049
Decrease in other financial assets		25,452,094,305	20,984,708,832
Decrease in current financial assets measured at fair value through profit or loss		734,255,442,703	216,722,943,288
Decrease in long-term financial assets measured at fair value through profit or loss		510,885,653,852	157,635,467
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		1,749,303,339	20,922,179,434
Decrease in long-term deposits in MSA Escrow Fund		7,200,000,000	72,899,804
Disposal of property, plant and equipment		-	443,725,928
Disposal of intangible assets		6,424,463,231	5,553,347,596
Disposal of investment properties		300,000,000	768,000
Disposal of assets held for sale		-	440,034,128
Disposal of investments in associates and joint ventures		69,612,576,176	634,340,249
Collection of loans		42,881,601,172	-
Collection of guarantee deposits		16,196,267,796	14,532,198,968
Collection of finance lease receivables		464,996,802	3,444,940,622
Increase in other financial assets		-	90,135,735
Increase in current financial assets measured at fair value through profit or loss		(631,490,722,381)	(234,867,328,826)
Increase in long-term financial assets measured at fair value through profit or loss		(470,000,000)	(41,757,468,151)
Increase in long-term financial assets measured at fair value through other comprehensive income or loss		(55,239,898,342)	(54,215,758,761)
Increase in long-term deposits in MSA Escrow Fund		(2,999,982,000)	(2,499,988,606)
Acquisition of property, plant and equipment		(95,160,173,619)	(184,736,600,615)
Acquisition of intangible assets		(132,944,876,360)	(125,999,927,613)
Acquisition of investment properties		(26,885,598,472)	(26,208,547,154)
Acquisition of right-of-use assets		(15,024,165,412)	(15,516,665,290)
Acquisition of investments in associates and joint ventures		(1,853,342,822)	(99,491,112)
Increase in loans		(29,488,895,600)	(62,764,091,620)
Increase in guarantee deposits		(8,922,562,691)	(20,018,033,014)
		(2,064,411,706)	(399,825,832)
<b>Net cash flows used in financing activities</b>			
Dividends payment		(566,050,075,657)	(599,566,751,693)
Interest paid		(575,903,630,400)	(595,583,630,400)
Repayment of lease liabilities		(3,085,318,805)	(2,646,009,839)
Repayment of borrowings		(14,761,647,129)	(16,496,098,614)
Increase in borrowings		(79,424,962,630)	(73,915,429,793)
		107,125,483,307	89,074,416,953
<b>Net increase in cash and cash equivalents</b>		613,426,450,552	127,235,643,917
<b>Cash and cash equivalents at the beginning of the period</b>		946,570,845,404	1,253,611,491,485
Effect of exchange rate fluctuation on cash and cash equivalents		29,838,891,710	(19,941,089,226)
<b>Cash and cash equivalents at the end of the period</b>		₩ 1,589,836,187,666	₩ 1,360,906,046,176

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

## 1. Reporting Entity

### 1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 2022, the Parent 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 Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of monopoly business of red ginseng and tobacco, the Parent 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 Parent 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’s reorganization plan. The separation of a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Parent Company’s contribution of assets and liabilities into red ginseng business. On December 27, 2002, the Parent Company changed its name from Korea Tobacco and Ginseng Corporation to KT&G Corporation.

On October 8, 1999, the Parent Company sold 28,650,000 shares of government-owned interest to the public and listed its shares on Korea Exchange. The Parent 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 Parent Company). Then, on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

The Parent 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
	<u>137,292,497</u>	<u>100.00</u>

**KT&G Corporation and Its Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements, Continued**  
September 30, 2022 and 2021 (Unaudited)



## 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of September 30, 2022 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) <sup>1</sup>	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng and others	100.00	September 30, 2022	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	September 30, 2022	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	September 30, 2022	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	September 30, 2022	Turkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	September 30, 2022	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	September 30, 2022	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	September 30, 2022	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	September 30, 2022	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	September 30, 2022	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	September 30, 2022	Singapore
	PT KT&G Indonesia	Selling tobaccos	99.99	September 30, 2022	Indonesia
	SangSang Stay Inc.	Hotel business	100.00	September 30, 2022	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	September 30, 2022	Russia
	Gwacheon Sangsang PFV. Inc.	Real estate development and sales business	51.00	September 30, 2022	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	September 30, 2022	Taiwan
	Master No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	September 30, 2022	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	September 30, 2022	Korea
	KGC Life&Gin Co., Ltd.	Selling ginseng and others	100.00	September 30, 2022	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	September 30, 2022	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng and others	100.00	September 30, 2022	Taiwan
	Korean Red Ginseng Corp, Inc.	Selling ginseng and others	100.00	September 30, 2022	USA
	Korea Ginseng (China) Corp.	Selling ginseng and others	100.00	September 30, 2022	China
	Korea Ginseng Corp. Japan	Selling ginseng and others	100.00	September 30, 2022	Japan
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling ginseng and others	98.56	September 30, 2022	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	September 30, 2022	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	September 30, 2022	Indonesia

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

## **KT&G Corporation and Its Subsidiaries**

**Notes to the Interim Consolidated Financial Statements, Continued**  
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One of the subsidiaries of the Parent Company, Cosmocos Co., Ltd., acquired 250,000 shares (₩287 million) of K&I HK Co., Ltd.'s newly issued stocks, during the year ended December 31, 2021 and K&I HK Co., Ltd. was liquidated in the nine-month period ended September 30, 2022.

The Parent 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.

The Parent Company acquired 6,978,948 shares (₩25,291 million) of Renzoluc Pte., Ltd.'s existing stocks during the year ended December 31, 2021.

# KT&G Corporation and Its Subsidiaries

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



## 2. Significant Accounting Policies

### (1) Basis of Preparation

The interim consolidated financial statements of the Group have been prepared in accordance with KIFRS 1034 *Interim Financial Reporting*. The accompanying interim consolidated 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 auditor's review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

The Group does not have a history of early adoption of new accounting standards and interpretations that have been published but 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 replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version for determining whether assets and liabilities qualify for recognition, but add an exception requiring entities to apply KIFRS 1037 or KIFRS 2121 for liabilities and contingent liabilities within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and KIFRS 2121 *Levies*. The amendments also clarify that contingent assets do not qualify for recognition 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 of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

## KT&G Corporation and Its Subsidiaries

### Notes to the Interim Consolidated Financial Statements, Continued

September 30, 2022 and 2021 (Unaudited)



(d) Amendments to KIFRS 1101 *First time Adoption of KIFRS* – 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 based on the Parent Company's date of transition to 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* – Taxation in fair value measurement

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 consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2021, except for the changes due to the application of amendment and enactments of standards described in Note 2.(2) and the one described below.

(a) Income Tax Expense

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

### 3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on 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 consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2021, except for the estimates used to determine the income tax expense.

### 4. Operating Segment

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

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

(b) Segment information on sales and operating profit for the nine-month periods ended September 30, 2022 and 2021 are as follows:

(in millions of Korean won)

	September 30, 2022						
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 2,957,552	₩ 1,231,186	₩ 470,450	₩ 228,056	₩ 4,887,244	₩ (442,581)	₩ 4,444,663
Intersegment sales	(244,198)	(118,626)	(64,357)	(15,400)	(442,581)	442,581	-
External sales	2,713,354	1,112,560	406,093	212,656	4,444,663	-	4,444,663
Operating profit (loss) <sup>2</sup>	817,411	116,290	176,913	(8,037)	1,102,577	(44,652)	1,057,925

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

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



**KT&G Corporation and Its Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements, Continued**  
**September 30, 2022 and 2021 (Unaudited)**



(in millions of Korean won)

	September 30, 2021						
	Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 2,586,803	₩ 1,219,414	₩ 592,459	₩ 197,434	₩ 4,596,110	₩ (417,308)	₩ 4,178,802
Intersegment sales	(262,982)	(108,175)	(39,852)	(6,299)	(417,308)	417,308	-
External sales	2,323,821	1,111,239	552,607	191,135	4,178,802	-	4,178,802
Operating profit (loss) <sup>2</sup>	727,342	136,169	232,726	(16,601)	1,079,636	(7,917)	1,071,719

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

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

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

(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:					
Tobacco	Wholesale and retail	₩ 898,093	₩ 2,584,150	₩ 749,856	₩ 2,089,069
	Direct sales	45,863	129,204	13,824	36,793
	Discontinued operations	-	-	73,834	197,959
Ginseng	Wholesale and retail	244,896	575,384	232,378	569,397
	Direct sales	204,448	537,176	208,290	541,842
Others	Wholesale and retail	71,093	200,607	65,556	182,570
	Direct sales	4,323	12,049	2,762	8,565
Subtotal		1,468,716	4,038,570	1,346,500	3,626,195
Revenue recognized over time:					
Real estate	Sales and rental	155,880	406,093	221,948	552,607
	Total	₩ 1,624,596	₩ 4,444,663	₩ 1,568,448	₩ 4,178,802

**KT&G Corporation and Its Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements, Continued**  
**September 30, 2022 and 2021 (Unaudited)**



(d) Segment information of assets and liabilities as of September 30, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		September 30, 2022							
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated	
<b>Assets:</b>									
Segment assets	W	6,180,721	2,158,973	1,390,634	264,884	9,995,212	(2,483,361)	W	7,511,851
Investments in associates and joint ventures		-	-	268,466	4,610	273,076	-		273,076
Subtotal		6,180,721	2,158,973	1,659,100	269,494	10,268,288	(2,483,361)		7,784,927
Common assets									4,846,231
Total assets								W	12,631,158
Acquisition of non-current assets	W	165,290	23,166	5,972	6,561	200,989	21,282	W	222,271
<b>Liabilities:</b>									
Segment liabilities	W	2,484,395	283,087	90,252	139,045	2,996,779	(799,957)	W	2,196,822
Common liabilities									647,374
Total liabilities								W	2,844,196

(in millions of Korean won)

		December 31, 2021							
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated	
<b>Assets:</b>									
Segment assets	W	5,356,142	2,150,747	1,379,475	257,294	9,143,658	(2,150,978)	W	6,992,680
Investments in associates and joint ventures		-	-	238,592	4,400	242,992	-		242,992
Assets held for sale		14,901	5,440	-	-	20,341	(217)		20,124
Subtotal		5,371,043	2,156,187	1,618,067	261,694	9,406,991	(2,151,195)		7,255,796
Common assets									4,381,475
Total assets								W	11,637,271
Acquisition of non-current assets	W	209,329	166,752	86,087	21,813	483,981	(93,551)	W	390,430
<b>Liabilities:</b>									
Segment liabilities	W	1,958,575	202,057	90,547	141,388	2,392,567	(523,360)	W	1,869,207
Common liabilities									559,202
Total liabilities								W	2,428,409

Common assets and borrowings include cash and cash equivalents, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income or loss, deferred tax assets, and others; common liabilities include deferred tax liabilities, and others.

## KT&G Corporation and Its Subsidiaries

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



(e) Regional information by customer location 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		
	Korea	Overseas	Total	Korea	Overseas <sup>1</sup>	Total
Sales	₩ 3,051,567	₩ 1,393,096	₩ 4,444,663	₩ 3,133,762	₩ 1,045,040	₩ 4,178,802
Non-current assets	2,927,624	131,449	3,059,073	2,847,921	135,335	2,983,256

<sup>1</sup>Overseas sales of ₩197,959 million, classified as profit or loss from discontinued operations for the nine-month period ended September 30, 2021, are included.

The regional information for above 'Overseas' category is not separately disclosed based on the immateriality of sales and non-current assets of each country.

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

## 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	₩ 1,468,150	₩ -	₩ 904,504	₩ -
Loans	17,467	53,654	17,123	60,827
Other receivables	65,650	1,081	39,855	3,612
Guarantee deposits	33,954	57,418	48,775	30,170
Accrued income	4,628	30	2,484	151
Total	₩ 1,589,849	₩ 112,183	₩ 1,012,741	₩ 94,760

(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	₩ 1,684,971	₩ 112,263	₩ 1,091,383	₩ 95,125
Allowances:				
Trade receivables	(94,213)	-	(77,675)	-
Other receivables	(909)	(80)	(967)	(365)
Total allowances	(95,122)	(80)	(78,642)	(365)
Net trade and other receivables	₩ 1,589,849	₩ 112,183	₩ 1,012,741	₩ 94,760

(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	₩ 79,007	₩ 87,776
Loss (reversal) of impairment <sup>1</sup>	14,160	7,264
Write off	(871)	(392)
Net exchange difference	2,906	1,328
Ending balance	₩ 95,202	₩ 95,976

<sup>1</sup>As of September 30, 2022, the impairment loss reversal of ₩737 million classified as profit or loss from discontinued operations, and prior year's impairment loss of ₩215 million classified as profit or loss from discontinued operations are included.

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).

**KT&G Corporation and Its Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements, Continued**  
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**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	₩ 105,182	₩ (2,821)	₩ 102,361	₩ 57,930	₩ (2,609)	₩ 55,321
Finished goods	386,797	(40,127)	346,670	369,572	(37,102)	332,470
Half-finished goods and work in progress	908,685	(3,264)	905,421	1,041,928	(3,881)	1,038,047
Raw materials	814,943	(8,957)	805,986	830,469	(8,671)	821,798
Supplies	57,777	-	57,777	51,331	-	51,331
By-products	5,147	-	5,147	6,551	-	6,551
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	62,351	-	62,351	24,416	-	24,416
Goods in transit	34,802	-	34,802	36,395	-	36,395
Total	₩ 2,408,219	₩ (55,169)	₩ 2,353,050	₩ 2,427,644	₩ (52,263)	₩ 2,375,381

(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 <sup>1</sup>	₩ (2,497)	₩ (5,701)	₩ 66	₩ (1,874)
Loss on obsolescence of inventories	1,719	5,231	3,341	7,253
Other expense:				
Loss on obsolescence of inventories	124	136	169	169
Total	₩ (654)	₩ (334)	₩ 3,576	₩ 5,548

<sup>1</sup>Reversal of loss on valuation of inventories classified as profit or loss from discontinued operations, in the amount of ₩67 million and ₩176 million, respectively, are included for the nine-month periods ended September 30, 2022 and 2021.



## 7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<b>September 30, 2022</b>		<b>September 30, 2021</b>
Beginning balance	₩	242,992	₩	132,187
Acquisition		29,489		93,466
Disposal		(42,732)		-
Shares of net profit or loss		30,458		(1,053)
Dividends		(3,942)		(1,860)
Reclassification <sup>1</sup>		17,014		-
Changes in Equity		(203)		1
Ending balance	₩	273,076	₩	222,741

<sup>1</sup>For the nine-month period ended September 30, 2022, KOCREF 41 REIT was reclassified into investment in associates from financial assets at fair value through other comprehensive income, and KORAMCO Amsa PFV Co., Ltd. was reclassified into assets held for sale from investment in associates (see Notes 12, 21).

## 8. Property, Plant and Equipment

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

<i>(in millions of Korean won)</i>		<u>September 30, 2022</u>		<u>September 30, 2021</u>
Beginning balance	₩	1,741,042	₩	1,718,412
Acquisition		163,599		116,664
Disposal/Impairment		(2,986)		(1,851)
Depreciation <sup>1</sup>		(119,892)		(117,778)
Reclassification and others		(5,421)		10,971
Ending balance	₩	<u>1,776,342</u>	₩	<u>1,726,418</u>

<sup>1</sup>Depreciation expense (₩246 million for the nine-month period ended September 30, 2021) classified as profit or loss from discontinued operations is included.

## 9. 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>		<u>September 30, 2022</u>		<u>September 30, 2021</u>
Beginning balance	₩	145,719	₩	134,084
Acquisition		27,238		26,183
Disposal/Impairment		(779)		(406)
Amortization		(15,455)		(10,834)
Reclassification and others		3,674		1,702
Ending balance	₩	<u>160,397</u>	₩	<u>150,729</u>

## 10. 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>		<u>September 30, 2022</u>		<u>September 30, 2021</u>
Beginning balance	₩	1,150,980	₩	1,030,179
Acquisition		16,198		15,600
Disposal/Impairment		(143)		(538)
Depreciation		(15,923)		(16,375)
Reclassification and others		(62,695)		32,318
Ending balance	₩	<u>1,088,417</u>	₩	<u>1,061,184</u>

## 11. 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>		<u>September 30, 2022</u>		<u>September 30, 2021</u>
Beginning balance	₩	36,445	₩	49,088
Acquisition		15,236		12,397
Disposal		(2,007)		(354)
Depreciation <sup>1</sup>		(13,668)		(17,499)
Reclassification and others		(2,089)		1,292
Ending balance	₩	<u>33,917</u>	₩	<u>44,924</u>

<sup>1</sup>Depreciation expense (₩1,238 million for the nine-month period ended September 30, 2021) classified as profit or loss from discontinued operations is included.

## 12. 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>		<u>September 30, 2022</u>		<u>September 30, 2021</u>
Beginning balance	₩	20,124	₩	2,681
Disposal		(43,756)		(604)
Reclassification and others <sup>1</sup>		23,632		(77)
Ending balance	₩	<u>-</u>	₩	<u>2,000</u>

<sup>1</sup>Includes ₩22,647 million reclassified from investment properties, and ₩985 million reclassified from investment in associates (foreign exchange translation difference for the nine-month period ended September 30, 2021: ₩77 million).



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**13. Borrowings**

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

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Annual interest rate (%)</b>		<b>September 30, 2022</b>	<b>December 31, 2021</b>
Borrowings	Hana Bank	FTP+0.994~1.2	₩	15,500	₩ 4,000
		Bank Debenture (6 months)+1.62		3,000	3,000
		3.5		8,000	8,000
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2		6,379	5,344
	KB Kookmin Bank	3.5		40,000	40,000
	Shinhan Bank	Bank Debenture (6 months)+1.13		10,000	10,000
		Internal interest rate+1.12		-	1,000
	Korea Development Bank	Industrial Financial Debenture (1 year)+1.15		-	3,500
	Subtotal			82,879	74,844
Export Receivable-backed loan <sup>1</sup>	Hana Bank	3.85		1,094	-
Consumer credit agreements <sup>2</sup>	NH Nonghyup Bank	-		297	437
	Hana Card	-		116	152
	Subtotal			413	589
	Total		₩	84,386	₩ 75,433

<sup>1</sup>Includes the amount of export receivables and commissions incurred.

<sup>2</sup>The Group 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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(b) Current portion of long-term borrowings and long-term borrowings as of September 30, 2022 and December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<b>Lender</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>		<b>September 30, 2022</b>	<b>December 31, 2021</b>
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2023.05.30~ 2027.06.20	-	W	64,179	W 51,569
			MOR(6 months) +1.03		1,100	1,925
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.58		1,067	1,867
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year) +0.66		10,000	-
	Total			W	76,346	55,361
Consolidated statements of financial position:						
Current					16,714	2,166
Non-current					59,632	53,195
	Total			W	76,346	W 55,361

<sup>1</sup>This borrowing is a government fund granted for contracted cultivation as part of ginseng systematization project, subsidized by the Ministry for Agriculture, Food and Rural Affairs. Therefore, the interest rate is 0% and the discount for present value is calculated and recognized as a government subsidy every quarter.

(c) As discussed in Note 23.(c) of interim consolidated financial statements, the Group provides collaterals for the above borrowings.

#### 14. 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	₩ 12,752	₩ 38,399	₩ 13,110	₩ 41,670
Net interest on net defined benefit liabilities	284	1,079	573	1,602
Past service costs and settlement gain and loss	211	(1,263)	-	-
Subtotal	13,247	38,215	13,683	43,272
Defined contribution plan:				
Contributions recognized as expense	1,743	5,149	1,666	5,302
Other long-term employee benefits:				
Current service cost, etc.	1,560	4,458	9,019	16,778
Termination benefits:				
Voluntary retirements, etc.	-	2,214	92	1,827
Total	₩ 16,550	₩ 50,036	₩ 24,460	₩ 67,179

(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	₩ 607,540	₩ 585,308
Fair value of plan assets	(520,818)	(538,708)
Total	₩ 86,722	₩ 46,600

## 15. 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	15,182	3,785	14,340	3,367
Provision for site restoration	1,940	361	3,497	1,604
Provision for financial guarantee	-	164	21	250
Provision for greenhouse gases	193	-	269	-
Provision for others	1,521	2	3,089	1
Total	₩ 23,213	₩ 4,312	₩ 26,131	₩ 5,222

(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	17,707	4,106	(2,846)	18,967
Provision for site restoration	5,101	4,291	(7,091)	2,301
Provision for financial guarantee	271	-	(107)	164
Provision for greenhouse gases	269	-	(76)	193
Provision for others	3,089	346	(1,912)	1,523
Total	₩ 31,352	₩ 8,743	₩ (12,570)	₩ 27,525

(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	11,243	11,887	(6,506)	16,624
Provision for site restoration	13,476	611	(7,286)	6,801
Provision for financial guarantee	622	77	(277)	422
Provision for greenhouse gases	178	412	(178)	412
Provision for others	718	-	-	718
Total	₩ 30,701	₩ 14,638	₩ (15,822)	₩ 29,517

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**16. 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) <sup>1</sup>	Cost (cumulative) <sup>2</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	67.12	₩ 791,406	₩ 791,406	₩ 503,611	₩ 258,736	₩ 226,524
Gwacheon Sangsang Xi Tower	January 2021	May 2023	69.09	239,568	239,568	162,986	87,733	91,785
Total				₩ 1,030,974	₩ 989,846	₩ 666,597	₩ 346,469	₩ 318,309

<sup>1</sup>Excludes 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.

<sup>2</sup>Excludes 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) <sup>1</sup>
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
Gwacheon Sangsang Xi Tower	January 2021	May 2023	19.79	239,568	239,568	47,144	47,144	26,612
Total				₩ 2,416,183	₩ 2,324,115	₩ 1,558,558	₩ 504,239	₩ 701,386

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

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(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)

Construction project	September 30, 2022			
	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
Gwacheon Sangsang Xi Tower B	162,986	93,296	69,690	-
Total	₩ 666,597	₩ 396,756	₩ 274,379	₩ 4,538

(in millions of Korean won)

Construction project	December 31, 2021			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Park Prugio (Apartment)	₩ 1,212,154	₩ 1,202,022	₩ 10,132	-
Suwon Hwaseo Park Prugio (Efficiency apartment)	109,719	104,499	5,558	338
Suwon Hwaseo Park Prugio (Commercial facility)	57,262	58,265	-	1,003
Suwon Hwaseo Prugio Briciel	244,875	227,360	20,715	3,200
Gwacheon Sangsang Xi Tower B	75,253	71,252	4,001	-
Total	₩ 1,699,263	₩ 1,663,398	₩ 40,406	₩ 4,541

(c) No Material changes in estimated total contract revenues and total contract costs have occurred for the 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.

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**17. 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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Salaries	₩ 118,852	₩ 352,775	₩ 109,691	₩ 328,890
Retirement and termination benefits	9,909	30,774	10,152	33,328
Employee welfare	18,567	55,395	20,783	53,108
Travel expenses	6,230	13,684	2,335	5,960
Communication cost	1,411	4,512	1,386	4,315
Utilities	3,743	9,829	3,232	8,740
Taxes and dues	1,719	27,852	(11)	29,636
Supplies	1,476	4,161	1,346	4,168
Rent	5,866	14,614	3,480	10,820
Depreciation	9,730	40,090	14,747	44,763
Amortization	6,701	15,276	3,701	10,728
Repairs and maintenance	2,243	4,831	2,244	5,715
Vehicles	2,061	5,760	1,786	5,069
Insurance	853	2,061	1,147	4,183
Commissions	110,410	320,897	106,599	314,834
Freight and custody	19,934	53,068	20,792	52,687
Conferences	1,157	3,043	564	1,870
Advertising	77,084	217,647	79,473	204,137
Education and training	1,784	3,961	953	3,615
Prizes and rewards	315	1,087	303	1,136
Cooperation	345	1,218	271	856
Research and development	13,631	33,178	14,750	45,797
Impairment loss on trade receivables(reversal)	14,172	14,446	(333)	7,613
Total	₩ 428,193	₩ 1,230,159	₩ 399,391	₩ 1,181,968

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩8,323 million and ₩32,359 million, respectively, for the nine-month periods ended September 30, 2022 and 2021.

## 18. 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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Gain on foreign currency transaction	₩ 30,379	₩ 55,560	₩ 11,871	₩ 25,785
Gain on foreign currency translation	228,872	426,997	79,814	137,414
Gain on valuation of derivatives	-	-	-	667
Reversal of impairment loss on other receivables	-	285	236	351
Gain on disposal of property, plant and equipment	3,991	4,039	182	1,962
Reversal on impairment of property, plant and equipment	-	-	92	166
Gain on disposal of investment property	-	-	-	30
Gain on lease contract adjustments	-	118	61	161
Gain on disposal of investments in associates and joint ventures	168	168	480	602
Gain on disposal of assets held for sale	-	34,088	-	-
Miscellaneous income	5,044	15,544	3,037	7,300
<b>Total</b>	<b>₩ 268,454</b>	<b>₩ 536,799</b>	<b>₩ 95,773</b>	<b>₩ 174,438</b>

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩3,402 million and ₩333 million, respectively, for the nine-month periods ended September 30, 2022 and 2021.

(b) Other 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 <sup>1</sup>	Three-month period ended	Nine-month period ended <sup>1</sup>
Loss on foreign currency transaction	₩ 7,437	₩ 19,342	₩ 1,321	₩ 5,120
Loss on foreign currency translation	8,962	30,064	476	11,331
Loss on disposal of investments in associates and joint ventures	19	19	-	-
Loss on impairment of investments in subsidiaries	43	43	-	-
Loss on valuation of derivatives	42,499	71,460	10,969	22,774
Loss on other receivables	134	-	2	2
Loss on disposal of property, plant and equipment	722	1,177	1,207	1,623
Loss on impairment of property, plant and equipment	-	511	75	75
Loss on disposal of intangible assets	1	378	51	51
Loss on impairment of intangible assets	10	101	159	262
Loss on disposal of Investment properties	-	-	65	128
Loss on disposal of assets held for sale	-	1,218	4	301
Donations	2,456	4,988	1,983	4,560
Loss on lease contract adjustments	14	8	7	12
Miscellaneous loss	1,098	6,519	1,232	2,501
<b>Total</b>	<b>₩ 63,395</b>	<b>₩ 135,828</b>	<b>₩ 17,551</b>	<b>₩ 48,740</b>

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩1,916 million and ₩5 million, respectively, for the nine-month periods ended September 30, 2022 and 2021.



## 19. Finance Income and Costs

Finance income and costs 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 <sup>2</sup>
Finance income:				
Interest income <sup>1</sup>	₩ 11,459	₩ 22,442	₩ 3,196	₩ 9,814
Dividend income	5,440	19,884	3,056	17,799
Gain on valuation of fair value through profit or loss	14,736	43,106	4,571	21,068
Total finance income	₩ 31,635	₩ 85,432	₩ 10,823	₩ 48,681
Finance cost:				
Interest expense	₩ 9,249	₩ 25,160	₩ 6,980	₩ 11,442
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	₩ 9,330	₩ 56,598	₩ 11,094	₩ 21,662
Net finance income	₩ 22,305	₩ 28,834	₩ (271)	₩ 27,019

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

<sup>2</sup>Includes the finance income and cost for discontinued operation for the nine-month periods ended September 30, 2022, which amount to ₩1 million of income and ₩187 million of cost.

## 20. Income Tax Expense and Deferred Tax Asset

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for the nine-month periods ended September 30, 2022 and 2021, are 29.83% and 28.18%, respectively.

## 21. Related Parties

(a) The Group'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
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.60	12.88
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47
	KOCREF 36 REIT <sup>2</sup>	Korea	21.01	21.01
	KOCREF 41 REIT <sup>3</sup>	Korea	26.47	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Kiwoom Milestone Private REIT No.16 <sup>4</sup>	Korea	-	45.50
	Cheongna Medipolis PFV Co., Ltd. <sup>5</sup>	Korea	56.74	56.74
	INNODIS Co., Ltd. <sup>1</sup>	Korea	19.64	19.60
	SJ BIO MED Co., Ltd. <sup>1</sup>	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	23.04	23.13
	KORAMCO Europe Private REIT 3-2 Fund <sup>6</sup>	Germany	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>7</sup>	Korea	-	18.95
	KORAMCO Amsa PFV Co., Ltd. <sup>8</sup>	Korea	-	17.84

<sup>1</sup>The Group classified its interests in the entities as investment in associates, as the Group is deemed to have significant influence over such entities considering its right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage is less than 20%.

<sup>2</sup>The Group reclassified its interests in the entity as investment in associates, as the Group obtained the ability to exercise significant influence over such entity with the increase in its ownership percentage, following the selective reduction of capital undertaken by the entity during the year ended December 31, 2021.

<sup>3</sup>The Group reclassified its interests in the entity as investment in associates, as the Group obtained the ability to exercise significant influence over the entity with the increase in its ownership percentage, following the selective reduction of capital undertaken by the entity during the nine-month period ended September 30, 2022.

<sup>4</sup>The Group reclassified its interest in the entity as investment in associates during the year ended December 31, 2021, as the Group is deemed to have significant influence over the entity. The Group completed the sale of its interests in the entity in the nine-month period ended September 30, 2022, and the entity was therefore excluded from related parties.

<sup>5</sup>The Group newly established the entity through capital investment during the year ended December 31, 2021, and classified the interest in the entity as investment in associates, since consent from three out of every four members of the entity's Board of Directors is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>6</sup>The Group classified its interest in the entity as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

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<sup>7</sup>The Group reclassified its interest in the entity as asset held for sale, considering sales contract it concluded during the year ended December 31, 2021, and as the interest in the entity was sold to the third-party in the nine-month period ended September 30, 2022, the entity was excluded from related parties.

<sup>8</sup>The Group reclassified its interest in the entity as assets held for sale, as the resolution for dissolution was made at the shareholders' meeting during the nine-month period ended September 30, 2022. Because the ownership was fully liquidated in the nine-month period ended September 30, 2022, it was excluded from related parties.

(b) The Group 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:

(in millions of Korean won)

Type	Name of entity	September 30, 2022				September 30, 2021			
		Sales and other revenue		Purchase and other expenses		Sales and other revenue		Purchase and other expenses	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Associates	KOCREF 36 REIT	W	-	600	W	-	-	W	-
	KOCREF 41 REIT		-	822		-	-		-
	AndaStation Professional Investment Private REIT No.1		473	473		-	-		-
	Kiwoom Milestone Private REIT No.16		606	1,399		-	-		-
	INNODIS Co., Ltd.		-	-	96	626	-	-	775
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund		-	648		-	630		-
	Starfield Suwon, Inc.		-	-	-	68	-	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.		-	-	-	-	18		-
	Total	W	1,079	3,942	W	96	694	W	620
							1,860	W	775
									1,399

(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
Associates	AndaStation Professional Investment Private REIT No.1	W	-	W	-
	INNODIS Co., Ltd.		-		35
					-
Others	KORAMCO Ocheon PFV Co., Ltd.		-		-
	Total	W	-	W	35
					499
					-

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**Notes to the Interim Consolidated Financial Statements, Continued**  
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(d) 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	Equity recovery	Equity investment	Equity recovery
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	-	-
	Starfield Suwon Inc. <sup>1</sup>	-	-	45,000	-
Joint ventures	KORAMCO Ocheon PFV Co., Ltd. <sup>2</sup>	-	24,353	-	-
	KORAMCO Amsa PFV Co., Ltd. <sup>3</sup>	-	1,749	-	-
	Total	₩ 29,489	₩ 68,984	₩ 62,764	₩ -

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

<sup>2</sup>The Group reclassified the ownership into asset held for sale as the 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 party.

<sup>3</sup>The Group 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.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

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- (e) There are no payment guarantees provided to or from the related parties.
- (f) The Group currently operates Starfield Suwon Inc. 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 Group 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.
- (g) The Group 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 relevant 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.
- (h) The Group is required to obtain a unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc.
- (i) The Group is in a capital call agreement with KORAMCO Europe Private REIT 3-2 Fund. However, the Group 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.
- (j) The Group has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Group's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Group dispose the shares by obtaining the approvals of the Board of Directors and Shareholders, the Group 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 Group.
- (k) Key management compensation 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	
Short-term and long-term employee benefits	₩	14,665	₩	17,556
Retirement benefits		1,833		1,806
Total	₩	16,498	₩	19,362

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

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

#### (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 Group's financial instruments. The Group manages and controls the market risk exposure to be within the acceptable range while optimizing revenue.

##### ① Currency risk

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

##### ② Price risk

The Group 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, which would be caused by changes in market prices of listed stocks the Group invests in. The Group's management regularly measures the risk of fluctuations in fair values or future cash flows that would fluctuate due to the changes in market prices of the listed stocks the Group invests in. Material investments in the Group's portfolio are individually managed, acquisitions and disposals of which require the approval of the Group's management.

## KT&G Corporation and Its Subsidiaries

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### ③ Interest rate risk

The Group is exposed to the risk of interest rate fluctuation related to its borrowings, trade payables and other payables, and lease liabilities. The Group's management maintains an appropriate balance between the fixed and variable interest borrowings by regularly measuring the risk of fluctuations in fair values or future cash flows of financial instruments 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 Group is exposed to credit risk that one of contracting parties to a financial instrument may incur financial loss to the other party due to the failure to perform its obligations. In order to manage credit risk, the Group's management only transacts with parties having credit rating over certain level, and establishes and manages the credit enhancement policies and procedures for financial assets. The Group evaluates the credit rating of new transacting party using the financial information disclosed at the point of contract conclusion and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Group then receives collaterals and/or payment guarantees as necessary. In addition, the Group periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's credit rating, and when the collection of financial assets is delayed, status of such assets and collection strategies are reported quarterly and appropriate measures are taken depending on the reason of 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 Group 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. In order to manage liquidity risk, the Group's management establishes 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. The Group's management deems the financial liabilities are redeemable by the cash flows from operating activities and cash inflows from financial assets.

**KT&G Corporation and Its Subsidiaries**  
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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 <sup>1</sup>	₩	1,484,214	₩	1,683,359
Financial assets fair value through other comprehensive income or loss		210,706		228,398
Derivative assets		-		580
Financial assets measured at amortized cost				
Cash and cash equivalents <sup>1</sup>		937,585		533,412
Other financial assets		363,278		466,058
Trade and other receivables		1,702,032		1,107,501
Long-term deposits		1,627,911		1,250,468
Subtotal		4,630,806		3,357,439
Total financial assets	₩	6,325,726	₩	5,269,776
Financial liabilities:				
Derivative liabilities	₩	27,813	₩	908
Financial liabilities measured at amortized cost				
Short-term borrowings		84,387		75,433
Current portion of long-term borrowings		16,714		2,166
Long term borrowings		59,632		53,195
Trade and other payables		720,769		603,833
Lease liabilities		32,723		36,558
Non-controlling interests liabilities		19,835		18,317
Subtotal		934,060		789,502
Total financial liabilities	₩	961,873	₩	790,410

<sup>1</sup>As of September 30, 2022, the money market trust amounting to ₩652,251 million (December 31, 2021: ₩413,159 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 Group 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



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 <sup>1</sup>	W 1,484,214	W -	W 1,156,768	W 327,446	
Fair value through other comprehensive income or loss	210,706	200,697	-	10,009	
Total financial assets	W 1,694,920	W 200,697	W 1,156,768	W 337,455	
Derivative liabilities	W 27,813	W -	W 27,813	W -	

<sup>1</sup>As of September 30, 2022, the money market trust amounting to W652,251 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 <sup>1</sup>	W 1,683,359	W -	W 1,395,963	W 287,396	
Fair value through other comprehensive income or loss	228,398	196,312	-	32,086	
Derivative assets	580	-	580	-	
Total financial assets	W 1,912,337	W 196,312	W 1,396,543	W 319,482	
Derivative liabilities	W 908	W -	W 908	W -	

<sup>1</sup>As of December 31, 2021, the money market trust amounting to W413,159 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 of 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	₩	319,482	₩	282,226
Acquisition		58,650		56,716
Disposal		(18,744)		(21,080)
Transfers		(28,300)		(30,100)
Changes in fair value		6,367		3,855
Ending balance	₩	337,455	₩	291,617

(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	₩ -	₩ -	₩ -	22,442 ₩	- ₩	22,442
Dividend income	10,646	9,238	-	-	-	19,884
Gain or loss on valuation	21,968	-	(71,460)	-	-	(49,492)
Loss on disposal	-	(10,300)	-	-	-	(10,300)
Interest expense	-	-	-	-	(25,160)	(25,160)
Impairment reversal(loss)	-	-	-	(14,160)	-	(14,160)
Gain on lease contract adjustments	-	-	-	-	110	110
Total	₩ 32,614	₩ (1,062)	₩ (71,460)	₩ 8,282	₩ (25,050)	₩ (56,676)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 11,528	₩ -	- ₩	- ₩	11,528

(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	₩ -	₩ -	₩ -	9,814 ₩	- ₩	9,814
Dividend income	8,432	9,367	-	-	-	17,799
Gain or loss on valuation	10,847	-	(22,107)	-	-	(11,260)
Interest expense	-	-	-	-	149	149
Impairment loss	-	-	-	-	(11,442)	(11,442)
Gain on lease contract adjustments	-	-	-	(7,264)	-	(7,264)
Total	₩ 19,279	₩ 9,367	₩ (22,107)	₩ 2,550	₩ (11,293)	₩ (2,204)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 20,927	₩ -	- ₩	- ₩	20,927

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### 23. Contingent Liabilities and Commitments

#### (a) Litigation cases

As of September 30, 2022, the Group has 20 pending litigations where the Group is in the position of the defendant, and the litigation amounts amount to ₩76,438 million. It is not possible to reasonably predict the impact of the outcome of the pending litigations on the consolidated financial statements of the Group as of September 30, 2022.

#### (b) Commitments with financial institutions

The Group'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 and one other	USD	110,300
Derivatives trading <sup>1</sup>	KB Kookmin Bank and four others	USD	334,500
Trade receivables factoring agreement	Hana Bank	KRW	5,000
Others	Korea Development Bank and five others	KRW	580,652
	Hana Bank Bahrain branch	USD	4,500

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

As of September 30, 2022, the Group 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 Group as of September 30, 2022 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	532,212	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	28,992	License guarantee, etc.
Travelers Casualty and Surety Company of America	USD	29,640	Escrow deposit guarantee
Liberty Mutual and two others	USD	397	Payment guarantees on license bond
Garanti Bank	TRY	2,508	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves.

As of September 30, 2022, KT&G USA Corporation receives a payment guarantee from Federal Insurance Company (executed amount: 0), for import clearance. The Group 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 Group has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

Payment guarantees provided by the Group 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 Group 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 13).

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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
Property, plant and equipment	₩ 70,065	₩ 12,168	₩ 27,600	KB Kookmin Bank and one other	Current portion of long-term and long term borrowings
	17,048	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	30,668	-	2,400	Korea Development Bank	Collateral for limit loan agreement
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
	81,783	48,000	57,600	KB Kookmin bank and one other	Short-term borrowings
Other financial assets	10,310	-	10,310	Korea Land & Housing Corporation	Establishment of a pledge for property development
	597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
Investments in associates	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	₩ 690,474	₩ 191,340	₩ 157,478		

Notes and checks provided as collaterals by the Group in relation to the borrowings and others, as of September 30, 2022 are as follows:

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

In addition to the above notes and checks, 3 notes and 2 checks with unknown origins and face amounts are lost as of September 30, 2022, and the Group is planning on pleading for their nullifications.

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
	Security deposits for checking accounts, etc.	457	55
Cash and cash equivalents	Establishment of a pledge to savings	1,680	1,680
	Total	₩ 113,044	₩ 112,642

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### (d) Others

Each year, the Group 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 Group 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 Group, in whole, after 25 years from each date of deposit. The Group 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 Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of September 30, 2022, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩140,909 million and ₩23,330 million, respectively (as of December 31, 2021: ₩103,841 million and ₩20,564 million, respectively).

As of September 30, 2022, the Group has a management trust agreement in place with Marriott International Management Company B.V., and has been provided with the international public relations services by Global Hospitality Licensing S.A.R.L. Furthermore, the Group has been provided with the technical advice by Marriott International Design & Construction Services, Inc.

The Group currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio. The disposal of the shares is limited for five years from the date Starfield Suwon's operation is approved. In the event that the Group 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 Group is in a capital call agreement in relations to the Group's overseas real estate funds. However, the Group 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 Group 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. 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 Group 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.

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

The Group has a joint disposal right to demand other investors to dispose their ownership under the same condition of the Group's disposal of Mastern No.144 PFV Co., Ltd.'s shares. Also, if the shareholders other than the Group dispose the shares by obtaining the approvals from the Board of Directors and Shareholders, the Group 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 Group.

As of September 30, 2022, the Group is being provided with commitments from GS Engineering & Construction Corp. and Daewoo Engineering & Construction Co., Ltd., to complete the construction of Gwacheon SangSang Xi tower, and Suwon Hwaseo Prugio Briciel, respectively. 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.

As of September 30, 2022, KT&G USA Corporation, a subsidiary of the Parent Company and also an intermediate controlling entity of other subsidiaries, 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 Group. The ultimate impact of uncertainty fluctuations caused by Covid-19 on the Group's business, financial position and financial performance is unpredictable as of September 30, 2022.

The Group 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 Group's business in Russia and its financial position therein cannot be reasonably estimated as of September 30, 2022.

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**24. Cash Flows**

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

<i>(in millions of Korean won)</i>	<b>September 30, 2022</b>		<b>September 30, 2021</b>	
Profit for the nine-month period ended September 30	₩	1,065,361	₩	878,582
Operating profit from continuing operations		1,072,197		865,965
Operating profit (loss) from discontinued operation		(6,836)		12,617
Adjustments:				
Employee welfare		4,096		17,536
Retirement benefits		38,215		43,091
Loss(reversal) on valuation or obsolescence of inventories		(334)		5,548
Depreciation		149,483		151,652
Amortization		15,455		10,834
Loss(reversal) in impairment of trade and other receivables		14,160		7,264
Loss on foreign currency translation		30,064		11,331
Loss on valuation of derivatives		71,460		22,774
Loss on disposal of property, plant and equipment		1,177		1,623
Loss on impairment of property, plant and equipment		511		75
Loss on disposal of intangible assets		378		51
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		301
Loss on disposal of investments in associates and joint ventures		19		-
Loss on disposal of investments in subsidiaries		43		-
Other expenses, etc.		3,612		5,790
Finance costs		56,598		21,662
Income tax expense		452,825		344,800
Gain on foreign currency translation		(426,997)		(137,414)
Gain on valuation of derivatives		-		(667)
Gain on disposal of property, plant and equipment		(4,039)		(1,962)
Reversal in impairment of property, plant and equipment		-		(166)
Gain on disposal of investment property		-		(30)
Gain on disposal of assets held-for-sale		(34,088)		-
Gain on disposal of investments in associates and joint ventures		(168)		(602)
Other income, etc.		(2,257)		(577)
Finance income		(85,432)		(48,681)
Decrease (increase) of investments in associates and joint ventures due to share of net gain/loss		(30,458)		1,053
Changes in working capital:				
Decrease (Increase) in trade and other receivables		(425,126)		10,824
Increase in derivatives		(43,974)		(3,496)
Decrease in inventories		161,953		185,196
Decrease in accrued tobacco excise and other taxes		20,904		19,509
Increase in advance payments		(65,815)		(73,301)
Decrease (increase) in prepaid expenses		9,598		(12,823)
Increase in trade and other payables		42,935		116,447
Increase (decrease) in advance receipts		5,142		(20,326)
Increase in tobacco excise and other taxes payable		114,725		75,114
Increase (decrease) in provision for site restoration		121		(7,180)
Decrease in net defined benefit liabilities		(2,202)		(11,574)
Cash generated from operations	₩	1,139,264	₩	1,612,648



## 25. Discontinued Operations

For the year ended December 31, 2021, The Group has discontinued KT&G USA Corporation business as the Group determined it necessary to revisit the entire global business strategy, following the enhanced US tobacco regulations and growing market competition which warrant reconsideration of conducting the US business segment.

Such business was not classified as discontinued operations as of September 30, 2021. The comparative statements of other comprehensive income are restated to present separately the discontinued operations and continuing operations.

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

(in millions of Korean won)

		September 30, 2022		September 30, 2021
Revenue <sup>1</sup>	₩	3,402	₩	198,293
Expenses <sup>2</sup>		(10,238)		(181,051)
Profit (loss) on discontinued operation, before tax		(6,836)		17,242
Income tax expense		-		(4,625)
Profit (loss) on discontinued operation, after tax		(6,836)		12,617
Exchange differences on translating foreign operations		(6,050)		3,030
Total comprehensive income (loss) on discontinued operation	₩	(12,886)	₩	15,647

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

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

Profit or loss from discontinued operations for the nine-month periods ended September 30, 2022 and 2021 are entirely attributed to the owners of the Parent Company.

### (b) Cash flows from discontinued operations

(in millions of Korean won)

		September 30, 2022		September 30, 2021
Cash flows from operating activities	₩	(13,409)	₩	(5,367)
Cash flows from investing activities		255		1,286
Cash flows from financing activities		(864)		(1,346)
Effect of exchange rate fluctuation on cash and cash equivalents		4,961		2,077
Total cash flow	₩	(9,057)	₩	(3,350)

## **KT&G Corporation and Its Subsidiaries**

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

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### **26. Subsequent Event**

The Group plans to issue new stocks worth of ₩30 billion to a subsidiary wholly owned by the Parent Company, SangSang Stay Inc., in January 2023 with consistent share percentages; such resolution was made at the Board of Directors' meeting on November 3, 2022.

The Group plans to issue new stocks worth of USD 89,526 thousand to a subsidiary wholly owned by the Parent Company, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., through three rounds of issuance for the period ranging from November 2022 to early 2024 with consistent share percentages; such resolution was made at the Board of Directors' meeting on November 3, 2022.

The Group decided to acquire 3,700,000 shares of treasury stock, which will be acquired by trading on the floor; such resolution was made at the Board of Directors' meeting on November 3, 2022.