



KT&G Corporation and Its Subsidiaries

Consolidated Financial Statements
For the year ended December 31, 2022
(With the independent auditor's report)

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

The Shareholders and Board of Directors KT&G Corporation

Opinion

We have audited the accompanying consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

Basis for Opinion

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

Key Audit Matters

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

Impairment assessment in a cash generating unit (“CGU”)

As described in Notes 3 and 12 to the consolidated financial statements, the Group assesses if there is any indication of impairment for CGUs at the end of each reporting period. The Group performs an impairment assessment in accordance with KIFRS 1036 *Impairment of Assets* for CGUs for which there are indications of impairment, and recognizes impairment loss when the estimated recoverable amount is less than the carrying amount.

The Group engaged independent external experts to assess the impairment of CGUs. In determining the recoverable amounts of CGUs, the Group used the value-in-use model reflecting financial forecasts and residual values for the next five years or the fair value model at the fair value of the CGU less costs of disposal .

As of December 31, 2022, the Group's CGUs include the domestic tobacco business, domestic real estate business and Indonesian tobacco business. The size of the CGUs subject to the impairment assessment is significant, and involves management's significant assumptions in determining the valuation method to be applied to measure the recoverable amounts, business plan and discount rates used for estimating value in use, and fair values of assets and liabilities used for estimating fair value. Thus, we identified the impairment assessment in CGU as significant risk that requires auditor attention.

In particular, CGUs related to the domestic cosmetic business, domestic real estate business and Indonesian tobacco business require significant auditor attention considering the quantitative significance of the CGU and recent financial performance of the Group. Therefore, we identified the impairment assesment of CGUs related to business units stated above as a key audit matter.

The main audit procedures we have performed for this key audit matter are as follows:

- We obtained an understanding of the process and internal controls related to the impairment assessment of CGU.
- We evaluated the objectivity and competence of independent external experts used by the Group.
- We conducted the independent assessment of CGU identification and impairment indication assessment performed by the Group management.
- We evaluated the mathematical accuracy of the estimated recoverable amounts of CGUs subject to the impairment assessment conducted by the Group.
- We evaluated the estimated recoverable amounts of CGUs subject to the impariment assessment conducted by the Group and checked whether the valuation methodology and estimation used in the prior period is consistent with that used in the current period through inquiry and assessment of the estimation.
- We evaluated the adjustments to the fair value assessment of assets and liabilities of CGUs subject to the impairment assessment conducted by the Group.
- We evaluated the appraisal method used for appraisal of non-financial assets included CGUs and estimated value resulting from the appraisal through the use of the auditor's experts.

Other Matter

The consolidated financial statements of the Group as of and for the year ended December 31, 2021 were audited by Samil PricewaterhouseCoopers, whose report dated March 18, 2022 expressed an unqualified opinion thereon.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jung-ik Park.



March 6, 2023

<p>This report is effective as of March 6, 2023, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.</p>

KT&G Corporation and Its Subsidiaries

Consolidated Financial Statements

As of and for the years ended December 31, 2022 and 2021

“The accompanying 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

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

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



<i>(in Korean won)</i>	Notes			December 31, 2022			December 31, 2021
Assets							
Current assets							
Cash and cash equivalents	5, 31, 32	₩		1,401,018,438,794	₩		946,570,845,404
Current other financial assets	5, 31, 32, 33			201,074,895,450			457,056,795,720
Current financial assets measured at fair value through profit or loss	6, 31, 32			393,106,179,920			965,384,441,544
Trade and other receivables	7, 24, 30, 31			1,528,511,308,801			1,012,741,494,275
Derivative assets	31, 33			23,069,310,564			580,339,743
Inventories	8			2,575,842,017,001			2,375,380,884,539
Refund assets and others	19			983,881,594			1,795,047,848
Accrued tobacco excise and other taxes				276,181,191,834			324,920,390,897
Advance payments	33			51,089,949,308			98,044,889,263
Prepaid expenses				58,707,728,734			53,262,710,533
Assets held for sale	4, 14, 30			-			20,123,696,708
Total current assets				6,509,584,902,000			6,255,861,536,474
Non-current assets							
Long-term other financial assets	5, 31, 33			42,826,342,939			9,001,281,420
Long-term deposits in MSA Escrow Fund	31, 33			1,437,130,373,415			1,250,467,510,043
Long-term financial assets measured at fair value through profit or loss	6, 31			320,429,121,314			304,815,651,866
Long-term trade and other receivables	7, 30, 31			108,476,071,963			94,759,875,704
Long-term financial assets measured at fair value through other comprehensive income or loss	9, 31			206,493,540,726			228,398,434,797
Investments in associates and joint ventures	4, 10, 30, 33			274,534,172,041			242,991,736,041
Property, plant and equipment	4, 11, 33			1,837,040,709,535			1,741,041,767,893
Intangible assets	4, 12			167,851,437,108			145,718,649,536
Investment properties	4, 13, 33			1,071,463,087,867			1,150,979,933,340
Right-of-use assets	4, 15			40,243,871,545			36,444,918,106
Long-term advance payments	33			113,065,628,589			104,559,554,973
Long-term prepaid expenses				7,130,744,259			8,538,939,470
Deferred income tax assets	28			55,757,878,436			52,555,448,304
Net defined benefit assets	18			109,687,902,060			11,135,956,233
Total non-current assets				5,792,130,881,797			5,381,409,657,726
Total assets		₩		12,301,715,783,797	₩		11,637,271,194,200
Liabilities							
Current liabilities							
Short-term borrowings	16, 31, 32, 33, 34	₩		72,629,448,270	₩		75,432,490,744
Current portion of long-term borrowings	16, 31, 32, 33, 34			4,125,980,000			2,166,480,000
Trade and other payables	17, 30, 31			1,505,796,123,059			971,120,364,253
Current lease liabilities	31, 34			16,558,862,968			17,180,641,274
Derivative liabilities	31, 33			-			907,708,348
Advance receipts	24			21,492,888,395			21,918,095,726
Current refund liabilities and provisions	19, 33			21,562,642,092			26,130,472,136
Current income tax liabilities	28			218,730,043,068			236,397,106,383
Tobacco excise and other taxes payables				666,419,286,276			712,693,018,015
Total current liabilities				2,527,315,274,128			2,063,946,376,879
Non-current liabilities							
Long-term borrowings	16, 31, 32, 33, 34			78,807,990,962			53,195,098,748
Long-term trade and other payables	17, 18, 30, 31			52,895,766,396			57,433,928,854
Long-term lease liabilities	31, 34			21,049,801,579			19,377,131,556
Long-term advance receipts	24			2,567,527,585			5,077,077,062
Net defined benefit liabilities	18			32,477,623,143			57,735,568,500
Long-term refund liabilities and provisions	19, 33			18,953,749,083			5,221,776,727
Deferred income tax liabilities	28			181,299,216,741			148,104,701,940
Non-controlling interests liabilities	31			27,768,802,788			18,317,380,882
Total non-current liabilities				415,820,478,277			364,462,664,269
Total liabilities		₩		2,943,135,752,405	₩		2,428,409,041,148

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



<i>(in Korean won)</i>	<u>Notes</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Equity			
Share capital	20	₩ 954,959,485,000	₩ 954,959,485,000
Other capital surplus	20	4,497,785,722	4,497,785,722
Treasury shares	21	(1,236,932,914,379)	(879,981,829,569)
Gain on sale of treasury shares	21	528,894,053,906	528,894,053,906
Reserves	22	6,812,285,552,594	6,490,161,242,572
Retained earnings	23	<u>2,251,940,435,833</u>	<u>2,060,255,463,296</u>
Equity attributable to owners of the Parent Company		<u>9,315,644,398,676</u>	<u>9,158,786,200,927</u>
Non-controlling interest	35	42,935,632,716	50,075,952,125
Total equity		₩ <u>9,358,580,031,392</u>	₩ <u>9,208,862,153,052</u>
Total liabilities and equity		₩ <u>12,301,715,783,797</u>	₩ <u>11,637,271,194,200</u>

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

KT&G Corporation and Its Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2022 and 2021



(in Korean won)	Notes	2022	2021
Continuing operations			
Sales	4, 24, 30	W 5,851,406,367,817	W 5,228,351,596,536
Cost of sales	25, 30	<u>(2,891,166,215,748)</u>	<u>(2,350,179,718,847)</u>
Gross profit		2,960,240,152,069	2,878,171,877,689
Selling and administrative expenses	25, 30	<u>(1,692,590,184,342)</u>	<u>(1,539,788,398,057)</u>
Operating profit		1,267,649,967,727	1,338,383,479,632
Other income	26, 30	299,644,222,335	188,398,441,771
Other expense	26, 30	(230,628,637,175)	(144,991,032,409)
Finance income	27, 31	131,413,329,533	78,752,556,761
Finance costs	27, 31	(87,540,068,046)	(31,901,130,075)
Share of net profit of associates and joint ventures	10	29,369,564,125	10,911,173,678
Profits arising from net monetary assets		<u>19,611,193,333</u>	<u>-</u>
Profit before income tax		1,429,519,571,832	1,439,553,489,358
Income tax expense	28	<u>(415,601,989,091)</u>	<u>(415,440,944,469)</u>
Profit from continuing operations		1,013,917,582,741	1,024,112,544,889
Discontinued operations			
Loss from discontinued operations	36	<u>(8,590,419,276)</u>	<u>(52,353,800,233)</u>
Profit for the year		W <u>1,005,327,163,465</u>	W <u>971,758,744,656</u>
Other comprehensive income (loss) for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	18	W 64,777,051,369	W 42,562,261,510
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	9, 31	5,817,648,989	11,842,842,363
Capital changes in equity method	10	37,784,825	7,024,011
Items that will be reclassified to profit or loss			
Exchange differences on translating foreign operations		6,756,562,846	35,085,579,708
Capital changes in equity method	10	<u>(143,617,944)</u>	<u>(18,589,051)</u>
		77,245,430,085	89,479,118,541
Total comprehensive income for the year		W <u>1,082,572,593,550</u>	W <u>1,061,237,863,197</u>
Profit for the year is attributable to:			
Owners of the Parent Company			
Profit from continuing operations		W 1,024,375,251,449	W 1,029,612,505,065
Loss from discontinued operations	36	<u>(8,590,419,276)</u>	<u>(52,353,800,233)</u>
Profit attributable to owners of the Parent Company		<u>1,015,784,832,173</u>	<u>977,258,704,832</u>
Non-controlling interests			
Loss from continuing operations		(10,457,668,708)	(5,499,960,176)
Loss from discontinued operations	36	<u>-</u>	<u>-</u>
Profit attributable to non-controlling interests		<u>(10,457,668,708)</u>	<u>(5,499,960,176)</u>
Total		W <u>1,005,327,163,465</u>	W <u>971,758,744,656</u>
Total comprehensive income (loss) for the year attributable to:			
Owners of the Parent Company			
Profit from continuing operations		W 1,099,831,343,408	W 1,117,671,825,278
Loss from discontinued operations	36	<u>(10,118,430,449)</u>	<u>(51,789,398,852)</u>
Total comprehensive income attributable to owners of the Parent Company		<u>1,089,712,912,959</u>	<u>1,065,882,426,426</u>
Non-controlling interests			
Loss from continuing operations		(7,140,319,409)	(4,644,563,229)
Loss from discontinued operations	36	<u>-</u>	<u>-</u>
Total comprehensive loss attributable to non-controlling interests		<u>(7,140,319,409)</u>	<u>(4,644,563,229)</u>
Total		W <u>1,082,572,593,550</u>	W <u>1,061,237,863,197</u>
Earnings per share			
Basic and diluted earnings per share			
From continuing operations	29	W 8,561	W 8,321
From discontinued operations		<u>(72)</u>	<u>(423)</u>
		W <u>8,489</u>	W <u>7,898</u>

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

KT&G Corporation and Its Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2022 and 2021



(in Korean won)	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserves	Retained earnings	Owners of the Parent	Non-controlling interest	Total equity
Balance as of January 1, 2021	W 954,959,485,000	W 4,497,785,722	W (531,616,093,579)	W 528,594,053,906	W 5,977,643,096,280	W 2,102,474,815,562	W 9,036,851,140,891	W 54,720,515,354	W 9,091,571,656,246
Total comprehensive income (loss) for the year	-	-	-	-	-	977,258,704,832	977,258,704,832	(5,499,960,176)	971,758,744,656
Profit (loss) for the year	-	-	-	-	-	977,258,704,832	977,258,704,832	(5,499,960,176)	971,758,744,656
Other comprehensive income (loss) for the year:	-	-	-	-	-	41,586,638,052	41,586,638,052	975,623,458	42,562,261,510
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	11,842,842,363	-	11,842,842,363	-	11,842,842,363
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	843,256,032	(843,256,032)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Capital changes in equity method	-	-	-	-	35,205,806,219	-	35,205,806,219	(120,226,511)	35,085,579,708
Total comprehensive income (loss) for the year	-	-	-	-	(11,565,040)	-	(11,565,040)	-	(11,565,040)
Transactions with owners of the Parent Company:	-	-	-	-	47,880,339,574	40,743,382,020	88,623,721,594	855,396,947	89,479,118,541
Dividends	-	-	-	-	47,880,339,574	1,018,002,086,852	1,065,882,426,426	(4,644,563,229)	1,061,237,863,197
Transfer to other reserve	-	-	-	-	-	(595,583,630,400)	(595,583,630,400)	-	(595,583,630,400)
Acquisition of treasury shares	-	-	(348,363,735,990)	-	464,637,806,718	(464,637,806,718)	(348,363,735,990)	-	(348,363,735,990)
Balance as of December 31, 2021	W 954,959,485,000	W 4,497,785,722	W (879,981,829,569)	W 528,594,053,906	W 6,490,161,242,572	W 2,060,255,463,296	W 9,158,786,200,927	W 50,075,952,125	W 9,208,862,153,052
Balance as of January 1, 2022	W 954,959,485,000	W 4,497,785,722	W (879,981,829,569)	W 528,594,053,906	W 6,490,161,242,572	W 2,060,255,463,296	W 9,158,786,200,927	W 50,075,952,125	W 9,208,862,153,052
Total comprehensive income (loss) for the year	-	-	-	-	-	1,015,784,832,173	1,015,784,832,173	(10,457,668,708)	1,005,327,163,465
Profit (loss) for the year	-	-	-	-	-	1,015,784,832,173	1,015,784,832,173	(10,457,668,708)	1,005,327,163,465
Other comprehensive income (loss) for the year:	-	-	-	-	-	61,461,811,843	61,461,811,843	3,315,239,526	64,777,051,369
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	5,817,648,989	-	5,817,648,989	-	5,817,648,989
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,445,120,600	(8,445,120,600)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Capital changes in equity method	-	-	-	-	6,754,453,073	-	6,754,453,073	2,109,773	6,756,562,846
Total comprehensive income (loss) for the year	-	-	-	-	(105,833,119)	-	(105,833,119)	-	(105,833,119)
Transactions with owners of the Parent Company:	-	-	-	-	20,911,389,543	53,016,691,243	73,928,080,786	3,317,349,299	77,245,430,085
Dividends	-	-	-	-	20,911,389,543	1,068,801,523,416	1,069,712,912,959	(7,140,319,409)	1,082,572,593,550
Transfer to other reserves	-	-	-	-	301,212,920,479	(301,212,920,479)	-	-	(575,903,630,400)
Acquisition of treasury shares	-	-	(356,951,084,810)	-	-	(877,116,550,879)	(356,951,084,810)	-	(356,951,084,810)
Balance as of December 31, 2022	W 954,959,485,000	W 4,497,785,722	W (1,236,932,914,379)	W 528,594,053,906	W 6,812,285,552,594	W 2,251,940,435,833	W 9,315,644,398,676	W 42,935,632,716	W 9,338,580,031,392

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

KT&G Corporation and Its Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021



(in Korean won)	Notes	2022	2021
Net Cash flows provided by operating activities	W	887,886,606,991	W 1,419,821,288,927
Cash generated from operations	34	1,310,291,267,335	1,832,610,798,998
Income taxes paid		(422,404,660,344)	(412,789,510,071)
Net Cash flows provided by (used in) investing activities		547,543,866,531	(797,609,538,428)
Interest received		31,996,364,932	10,842,084,632
Dividends received		32,681,873,019	28,902,614,644
Decrease in other financial assets		881,076,131,956	322,157,602,604
Decrease in current financial assets measured at fair value through profit or loss		661,016,206,416	157,635,467
Decrease in long-term financial assets measured at fair value through profit or loss		2,029,674,601	21,261,394,235
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		7,200,000,000	15,894,849,350
Decrease in long-term deposits in MSA Escrow Fund		-	460,542,059
Disposal of property, plant and equipment		3,744,232,539	5,326,293,923
Disposal of intangible assets		300,000,000	152,168,000
Disposal of investment properties		2,276,634,830	440,084,055
Disposal of assets held for sale		69,796,234,432	663,396,465
Disposal of investments in associates and joint ventures		42,881,601,172	-
Collection of loans		22,493,321,533	21,163,078,735
Collection of guarantee deposits		542,766,444	5,938,694,296
Collection of finance lease receivables		-	79,062,164
Increase in other financial assets		(658,996,797,302)	(371,913,419,700)
Increase in current financial assets measured at fair value through profit or loss		(19,798,832,337)	(41,742,688,463)
Increase in long-term financial assets measured at fair value through profit or loss		(64,701,050,384)	(80,708,000,459)
Increase in financial assets measured at fair value through other comprehensive income or loss		(2,999,982,000)	(3,499,960,186)
Increase in long-term deposits in MSA Escrow Fund		(96,556,324,890)	(247,623,644,989)
Acquisition of property, plant and equipment		(241,382,214,460)	(224,443,071,178)
Acquisition of intangible assets		(41,501,633,200)	(43,671,230,422)
Acquisition of investment properties		(27,905,934,217)	(109,650,106,837)
Acquisition of right-of-use assets		(3,294,617,573)	(180,751,941)
Acquisition of investments in associates and joint ventures		(34,488,895,600)	(79,786,091,620)
Increase in loans		(16,650,829,962)	(27,337,319,371)
Increase in guarantee deposits		(2,214,063,418)	(492,753,891)
Net Cash flows used in financing activities		(931,785,375,207)	(947,573,961,892)
Dividends payment		(575,903,630,400)	(595,583,630,400)
Interest paid		(10,204,555,892)	(3,204,576,721)
Commission of borrowings extension		(1,200,000,000)	-
Repayment of lease liabilities		(20,340,804,109)	(23,278,731,696)
Repayment of borrowings		(216,993,660,423)	(144,221,094,631)
Acquisition of treasury shares		(356,951,084,810)	(348,363,735,990)
Proceeds in borrowings		249,808,360,427	164,077,807,546
Increase in non-controlling interests liabilities		-	3,000,000,000
Net increase (decrease) in cash and cash equivalents		503,645,098,315	(325,362,211,393)
Cash and cash equivalents at the beginning of the year		946,570,845,404	1,253,611,491,485
Effect of exchange rate fluctuation on cash and cash equivalents		(49,197,504,925)	18,321,565,312
Cash and cash equivalents at the end of the year	W	1,401,018,438,794	W 946,570,845,404

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

1. Reporting Entity and Its Subsidiaries

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2022, the Parent Company has 3 manufacturing plants, including 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. 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, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco.

The shareholders approved a plan to separate the Parent Company into two companies by setting up a subsidiary for its red ginseng business segment effective from January 1, 1999, pursuant to the Korean government’s privatization program and management reorganization plan. The separation into a wholly owned subsidiary, Korea Ginseng Corporation, was accomplished by the Parent Company’s contribution of the assets and liabilities in the red ginseng business segment. On December 27, 2002, the Parent Company changed its name again to KT&G Corporation from Korea Tobacco and Ginseng Corporation.

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.

KT&G Corporation and Its Subsidiaries
Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2022 and 2021



1.1 Overview of the Parent Company (cont'd)

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

	Shares held (number of shares)	Percentage of ownership (%)
National Pension Service	9,723,015	7.08
Industrial Bank of Korea	9,510,485	6.93
Employee Share Ownership Association	4,062,888	2.96
Treasury shares	21,012,574	15.30
Others	92,983,535	67.73
Total	137,292,497	100.00

1.2 Consolidated Subsidiaries

Details of consolidated subsidiaries as of December 31, 2022, are as follows:

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

¹The percentage of ownership, shown above, is on a consolidated basis.

One of the subsidiaries of the Parent Company, Cosmococ 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 during the year ended December 31, 2022.

KT&G Corporation and Its Subsidiaries
Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2022 and 2021



1.2 Consolidated Subsidiaries (cont'd)

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 convertible preference shares during the year ended December 31, 2021.

1.3 Summarized Financial Information

Detailed of summarized financial information¹ for consolidated subsidiaries as of and for the year ended December 31, 2022, are as follows:

(in millions of Korean won)

	2022				
	Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income (loss)
Korea Ginseng Corporation	2,427,082	204,835	1,305,988	74,757	108,828
Yungjin Pharm. Co., Ltd.	203,083	113,213	218,381	(21,961)	(15,015)
Tae-A Industrial Co., Ltd.	57,771	6,729	32,588	1,313	933
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	71,845	48,517	25,132	1,786	25,579
Korea Tabacos do Brasil Ltda.	2,508	247	354	239	457
KT&G Pars	6	53,292	-	268	4,150
KT&G Rus L.L.C.	168,305	85,765	62,200	(2,236)	3,294
KT&G USA Corporation	31,031	65,670	-	(8,590)	(10,118)
Cosmococ Co., Ltd.	43,572	29,083	78,638	(1,135)	(261)
Renzoluc Pte., Ltd.	137,493	34,557	-	(964)	1,857
PT KT&G Indonesia	168,400	200,859	291,380	(2,305)	(1,013)
SangSang Stay Inc.	39,389	37,321	16,680	(2,699)	(2,751)
KT&G Global Rus L.L.C.	85,904	78,560	42,448	(239)	260
Gwacheon Sangsang PFV. Inc.	149,661	66,730	218,174	75,931	75,931
KT&G Taiwan Corporation	19,371	11,687	8,830	433	135
Mastern No.144 PFV Co., Ltd.	85,638	46,929	2,659	(1,088)	(1,088)
KGCyebon Corporation	51,901	2,950	14,781	361	549
KGC Life&Gin Co., Ltd.	31,179	5,780	35,074	421	583
Jilin Hanzheng Ginseng Co., Ltd.	54,371	1,078	19,574	(292)	(1,700)
Cheong Kwan Jang Taiwan Corporation	36,180	34,270	48,941	(3,308)	(3,343)
Korean Red Ginseng Corp, Inc.	31,559	17,837	42,261	326	1,185
Korea Ginseng (China) Corp.	63,531	51,002	90,691	317	(24)
Korea Ginseng Corp. Japan	7,051	4,477	12,867	170	(16)
K&I China Co., Ltd.	337	4,384	1,706	137	241
PT Trisakti Purwosari Makmur	384,431	196,343	208,793	31,585	25,229
PT Nusantara Indah Makmur	80	-	-	1	(2)

¹The above financial information is according to each company's separate financial statements.

KT&G Corporation and Its Subsidiaries
Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2022 and 2021



1.3 Summarized Financial Information (cont'd)

Details of summarized financial information¹ for consolidated subsidiaries as of and for the year ended December 31, 2021, are as follows:

(in millions of Korean won)

	2021				
	Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income (loss)
Korea Ginseng Corporation	2,307,541	194,121	1,292,829	86,292	99,906
Yungjin Pharm. Co., Ltd.	194,095	89,210	196,067	(11,582)	(9,546)
Tae-A Industrial Co., Ltd.	56,471	6,362	25,236	905	904
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	27,209	53,939	16,045	(23,400)	(9,045)
Korea Tabacos do Brasil Ltda.	1,988	184	173	66	94
KT&G Pars	6	57,442	-	(1,546)	(2,750)
KT&G Rus L.L.C.	132,554	53,307	47,233	2,791	8,777
KT&G USA Corporation	52,484	77,004	257,890	(52,354)	(51,789)
Cosmococ Co., Ltd.	47,035	32,285	72,106	517	1,037
Renzoluc Pte., Ltd.	135,221	34,142	-	(788)	6,170
PT KT&G Indonesia	63,390	94,836	164,364	2,633	1,013
SangSang Stay Inc.	45,379	40,560	8,946	(7,275)	(7,221)
KT&G Global Rus L.L.C.	64,941	57,857	31,625	7,371	7,489
Gwacheon Sangsang PFV. Inc.	138,327	90,495	120,988	44,536	44,536
KT&G Taiwan Corporation	7,988	439	-	(705)	(532)
Mastern No.144 PFV Co., Ltd.	87,849	48,052	58	(203)	(203)
PT Trisakti Purwosari Makmur	227,538	64,680	85,778	8,268	19,461
PT Nusantara Indah Makmur	81	-	-	1	6
KGCyebon Corporation	51,572	3,170	15,487	1,678	1,695
KGC Life&Gin Co., Ltd.	30,544	5,729	36,416	1,683	1,726
Jilin Hanzheng Ginseng Co., Ltd.	55,853	861	17,309	871	6,518
Cheong Kwan Jang Taiwan Corporation	29,224	23,971	38,676	1,312	1,749
Korean Red Ginseng Corp, Inc.	23,929	11,392	35,332	1,604	2,839
Korea Ginseng (China) Corp.	47,981	35,428	74,930	357	1,636
Korea Ginseng Corp. Japan	9,627	7,037	11,203	560	506
K&I HK Co., Ltd.	96	-	-	14	5
K&I China Co., Ltd.	428	4,716	2,101	(126)	(563)

¹The above financial information is according to each company's separate financial statements.

2. Significant Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea. The accompanying consolidated financial statements have been condensed, restructured and 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 report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

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

- certain financial assets and financial liabilities (including derivatives);
- assets held for sale measured at fair value less costs of disposal; and
- defined benefit plan and plan assets measured at fair value.

If the functional currency of a foreign operation is the currency of a hyperinflationary economy, it shall be restated in accordance with KIFRS 1029 *Financial Reporting in Hyperinflationary Economies* to reflect changes in the general pricing power of the functional currency and presented in units of the functional currency current as at the end of the reporting period. The statements of financial position and the statements of comprehensive income presented for comparative purposes are stated at the amount reported in the previous period that does not reflect the effects of changes in price or exchange rate subsequently occurred.

The Group translates all items (assets, liabilities, equity items, revenues and expenses) stated in the statements of financial position and the statements of comprehensive income (excluding those presented for comparative purposes) of foreign operation under the effect of hyperinflation at the currency spot rate at the end of the reporting period.

Details of the price index used in the hyperinflationary economy where the Group's foreign operation is located as of the end of the reporting period are as follows.

(in percent)

Foreign operation	Country	Price Index	December 31, 2022
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	TUIK CPI	64.27

Monetary assets and monetary liabilities have not been restated since they were already denominated in currency units current at the end of the reporting period. Non-monetary assets and liabilities were restated by applying a general price index of the Turkiye. The effect of hyperinflation on the Group's monetary assets and monetary liabilities is included in profit or loss resulting from the effect of translation pursuant to KIFRS 1029 *Financial Reporting in Hyperinflationary Economies* in the consolidated comprehensive income statement. If an entity holds more monetary assets than monetary liabilities when it operates in the hyperinflationary economy, loss on the net monetary position incurs due to decrease in purchasing power of the Company.

2.1 Basis of Preparation (cont'd)

A gain or loss on the net monetary position arises from changes in the carrying amount of non-monetary assets, non-monetary liabilities, equity and other items presented in the consolidated statements of comprehensive income due to the restatement.

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

2.2 Changes in Accounting Policies and Disclosures

(1) New and amended standards and interpretations

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022, and these amendments and interpretations do not have a significant impact on the consolidated 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 entities from 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.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

(d) Amendments to KIFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiary as a first-time adopters

The amendments permit a subsidiary that elects to apply paragraph D16 (1) of KIFRS 1101 to measure cumulative translation differences using amounts reported in the Parent Company's financial statements, based on the Parent Company's date of transition to of KIFRS.

(e) Amendments to KIFRS 1109 Financial Instruments – Fees in 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 the other's behalf.

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

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

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date insurance of the Group's financial statements are disclosed below.

(a) Amendments to KIFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments in compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

(b) KIFRS 1117 Insurance Contract

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

(c) Amendments to KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments are applicable for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(d) Amendments to KIFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

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

(e) Amendments to KIFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exception under KIFRS 1012, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are applicable for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

(f) Amendments to KIFRS 1001 Presentation of Financial Statements - Disclosure of financial liabilities with condition to adjust exercise price

The amendments require disclosure of carrying amount of financial liabilities and gains or losses related thereto, if all or part of the financial instrument with exercise price that is adjusted depending on the issuer's share price change is classified as financial liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

The Group is currently assessing the impact of the amendments on the consolidated financial statements.

2.3 Significant Accounting Policies

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

(1) Operating Segments

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

(2) Consolidation

The Group has prepared the consolidated financial statements in accordance with KIFRS 1110 *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recognized as goodwill. If those amounts are less than the

2.3 Significant Accounting Policies (cont'd)

fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Balances of receivables and payables, revenues, expenses, unrealized gains etc. arising from intercompany transactions between companies within the Group are eliminated. When differences in accounting policies arise, the accounting policies of subsidiaries are changed to ensure consistent application of accounting policies adopted by the Group.

For transactions with non-controlling interests that do not result in a loss of control, any difference between the amount of the adjustment to non-controlling interests and the fair value of any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changes in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group stops applying the equity method in cases where the proportion of the associate's loss attributable to the Group is either equal to or greater than the Group's investment holdings (including non-current investment holdings which form a part of the net investment) in the associate. However, in cases where the Group has either legal-constructive obligations or needs to make payments on behalf of the associate for any additional losses after the Group's holdings in the associate has been reduced to zero (0), the Group recognizes losses and liabilities only up to those additional losses. If there are objective signs of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. When using the financial statements of the associates in order to apply the equity method, the Group reviews whether associates have used the same accounting policies the Group would apply for transactions or events that have occurred under similar circumstances and makes adjustments to the financial statements of the associates if necessary.

(c) Business combinations under common control

The Group applies the book value method to account for business combinations of entities under common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book value on the consolidated financial statements of the ultimate Parent Company. The Group has adjusted the difference between the transfer consideration and the book value of the net assets from the capital surplus.



2.3 Significant Accounting Policies (cont'd)

(3) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statements of financial position.

(4) Property, Plant and Equipment

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

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

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

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

	<u>Estimated useful lives (years)</u>
Land	Indefinite
Buildings	10 - 60
Structures	4 - 40
Machinery	2 - 20
Vehicles	3 - 10
Tools	4 - 5
Equipment	2 - 10
Others	1 – 5, or indefinite

2.3 Significant Accounting Policies (cont'd)

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

(5) Borrowing Costs

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

To the extent that the Group borrows funds specifically for obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on those borrowings during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(6) Government Subsidies

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

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



2.3 Significant Accounting Policies (cont'd)

(7) Intangible Assets

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

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

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

	<u>Estimated useful lives (years)</u>
Industrial property rights	5 - 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Other intangible assets	1 - 14 or indefinite

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

Development costs recognized as intangible assets (Intangible assets under development) mainly consist of costs associated with developing information management system. Development costs are recognized as intangible assets when the following criteria are met. Other expenditures attributable to system repair and maintenance are recognized as expense as incurred.

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

2.3 Significant Accounting Policies (cont'd)

(8) Investment Properties

Property held for earning rentals or benefiting from capital appreciation is classified as investment properties. Investment properties are initially measured at its cost including transaction costs incurred at the acquisition date. Subsequently, investment properties are carried at depreciated cost less any accumulated impairment losses.

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

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

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

(9) Assets Held for Sale

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

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

2.3 Significant Accounting Policies (cont'd)

(10) Inventories

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

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

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

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

(11) Impairment of Non-Financial Assets

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

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

2.3 Significant Accounting Policies (cont'd)

(12) Financial Assets (Other than Derivative Instruments)

(a) Classification

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

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

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

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

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

(b) Measurement

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

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

- Debt instruments

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

2.3 Significant Accounting Policies (cont'd)

A. Financial assets measured at amortized cost

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

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

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

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

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

- Equity instruments

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

2.3 Significant Accounting Policies (cont'd)

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

(c) Impairment

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

(d) Recognition and derecognition

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

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

(e) Offsetting of financial instruments

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

2.3 Significant Accounting Policies (cont'd)

(13) Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

(14) Derivative Instruments

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

(15) Cash and Cash Equivalents

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

2.3 Significant Accounting Policies (cont'd)

(16) Employee Benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

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

(c) Share-based compensation

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

(d) Retirement benefits: Defined contribution plans

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

2.3 Significant Accounting Policies (cont'd)

(e) Retirement benefits: Defined benefit plans

Defined benefit pension plans are all pension plans excluding defined contribution pension plans. Generally, the amount of retirement pension payable to employees at retirement are confirmed through factors such as age, number of years worked or salary level, etc. The net defined liability (asset) recognized on the consolidated financial statement of financial position in relation to defined benefit plans is the amount of deficit (or amount of surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling) as determined by deducting the present value of the defined benefit obligations from the fair value of plan assets as of the end of the reporting period. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is presented in the currency that the salary will be paid and is calculated by discounting the expected future cash outflow by the interest rate of a corporate bond with a good credit rating with a maturity similar to the period when payment of the defined benefit obligation is due.

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

(f) Termination benefits

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

(17) Refund liabilities and provisions

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

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

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

2.3 Significant Accounting Policies (cont'd)

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

(18) Paid-in capital

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

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

(19) Revenue recognition

The Group's revenue categories consist of revenue from goods sold and services rendered.

(a) Sales of goods

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

Since the Group's contract with customers to supply goods allows customers a right of return, the amount of consideration that the Group receives can be variable. Variable consideration is estimated by using the expected value method, which the Group expects to better predict the amount of consideration to which it is entitled. The Group recognizes revenue by including in the transaction price variable consideration only up to the amount where it is highly probable that a significant portion of the accumulated revenue already recognized will not be reversed. Refund liabilities are recognized at the amount of consideration received (or receivable) for which the Group does not expect to be entitled. When customers exercise their right of return, the Group has a right to recover its products from customers. The Group recognizes this right as a refund asset and makes a corresponding adjustment to the cost of sales. The Group's right to recover its products are measured by deducting the cost of retrieving the goods from customers from the previous book value of the product.

2.3 Significant Accounting Policies (cont'd)

(b) Rendering of services

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

(c) Sale of real estate

The Group sells residential real estate according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Group has the right to claim for enforceable payment with regard to work performed up to that point. Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management has deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with KIFRS 1115.

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

On the other hand, sales revenue is recognized for sales contracts, such as shopping center, that do not meet the requirements for payment claims during the contract period, when the construction is completed and control of the goods is transferred to the customer.

(d) Lease of real estate

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

2.3 Significant Accounting Policies (cont'd)

(20) Finance income and finance cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method.

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

(21) Income tax expense

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

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

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

Deferred income tax recognized as the expected income tax effect when the carrying amount of the asset or liability is recovered or settled for temporary differences arising from the difference between the tax base and the carrying amount of assets and liabilities. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

2.3 Significant Accounting Policies (cont'd)

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

(22) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

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

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

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

(23) Earnings per share

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

2.3 Significant Accounting Policies (cont'd)

(24) Lease

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

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

The Group determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

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

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

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

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

2.3 Significant Accounting Policies (cont'd)

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

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

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

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

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

In accordance with KIFRS 1116, the Group either classifies a sublease as an operating lease, or classifies it as a finance lease and recognizes the related lease receivables as well as derecognizing the right-of-use assets derived from head leases.

(25) Emission rights

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

(26) Going concern

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

Following the resolution to liquidate KT&G Pars during 2019, the Group has prepared its consolidated financial statements by using the consolidated statements of financial position, comprehensive income, changes in equity and cash flows and the notes to consolidated financial statements under the assumption that KT&G Pars will be liquidated.

2.3 Significant Accounting Policies (cont'd)

(27) Discontinued Operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

If there is a discontinued operation, the Group restates the statement of comprehensive income as if it had been discontinued from the beginning of the comparative period presented.

(28) Approval of Financial Statements

The consolidated financial statements of the Group have been approved by the Board of Directors on February 9, 2023, and may be modified and re-approved at the Annual General Meeting of Shareholders, if any.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

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

(1) Impairment of CGUs

The Group determines whether to recognize an impairment loss on CGUs in accordance with KIFRS 1036 *Impairment of Assets*. When there is an indication of impairment of assets, the Group performs an impairment assessment by comparing the carrying amount of a CGU with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is

3. Critical Accounting Estimates and Assumptions (cont'd)

determined based on the estimation of the value in use or fair value less costs to sell (see Note 12).

(2) Total construction revenue and total construction cost

(a) Uncertainty of total contract revenue estimates

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Group includes it in contract revenue (see Note 24).

(b) Estimated total construction cost

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period. (see Note 24)

(3) COVID-19

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from Coronavirus disease 2019 ("COVID-19"). Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot be determined currently.

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4. Operating Segment

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

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

(b) Details of segment information on sales and operating profit for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022						
	Tobacco ¹	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	\ 3,895,518	\ 1,568,124	\ 693,558	\ 315,296	\ 6,472,496	\ (621,090)	\ 5,851,406
Intersegment sales	(321,718)	(179,920)	(102,075)	(17,377)	(621,090)	621,090	-
External sales	3,573,800	1,388,204	591,483	297,919	5,851,406	-	5,851,406
Operating profit (loss) ²	1,036,431	89,148	212,433	(9,833)	1,328,179	(70,916)	1,257,263
Depreciation and amortization	144,708	50,199	25,356	13,860	234,123	(8,668)	225,455

¹Profit (loss) from discontinued operations is included (see Note 36).

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

(in millions of Korean won)

	2021						
	Tobacco ¹	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	\ 3,471,338	\ 1,520,065	\ 770,429	\ 279,416	\ 6,041,248	\ (555,007)	\ 5,486,241
Intersegment sales	(339,167)	(145,649)	(60,353)	(9,838)	(555,007)	555,007	-
External sales	3,132,171	1,374,416	710,076	269,578	5,486,241	-	5,486,241
Operating profit (loss) ²	804,722	123,457	310,054	(19,023)	1,219,210	74,754	1,293,964
Depreciation and amortization	133,297	53,957	25,584	13,340	226,178	(9,018)	217,160

¹Profit (loss) from discontinued operations is included (see Note 36).

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

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Notes to the Consolidated Financial Statements, Continued
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4. Operating Segment (cont'd)

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

(in millions of Korean won)

		<u>2022</u>	<u>2021</u>
Revenue recognized at a point in time:			
Tobacco	Wholesale and retail	3,531,551	2,818,871
	Direct sales	42,249	55,410
	Discontinued operations	-	257,890
Ginseng	Wholesale and retail	763,602	741,320
	Direct sales	624,602	633,096
Others	Wholesale and retail	279,161	255,590
	Direct sales	18,758	13,988
	Subtotal	<u>5,259,923</u>	<u>4,776,165</u>
Revenue recognized over time:			
Real estate	Sales and rental	591,483	710,076
	Subtotal	<u>591,483</u>	<u>710,076</u>
	Total	<u>5,851,406</u>	<u>5,486,241</u>

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

(in millions of Korean won)

		<u>December 31, 2022</u>						
		<u>Tobacco¹</u>	<u>Ginseng</u>	<u>Real estate</u>	<u>Others</u>	<u>Segment total</u>	<u>Adjustments</u>	<u>Consolidated</u>
Assets:								
Segment assets	\	6,213,616	2,233,505	1,432,121	262,797	10,142,039	(2,373,907)	7,768,132
Investments in associates and joint ventures		-	-	265,084	9,450	274,534	-	274,534
Subtotal	\	<u>6,213,616</u>	<u>2,233,505</u>	<u>1,697,205</u>	<u>272,247</u>	<u>10,416,573</u>	<u>(2,373,907)</u>	<u>8,042,666</u>
Common assets								4,259,050
Total assets								<u>12,301,716</u>
Acquisition of non-current assets	\	299,725	32,984	9,349	9,039	351,097	44,156	395,253
Liabilities:								
Segment liabilities	\	2,505,124	247,442	25,997	132,284	2,910,847	(583,870)	2,326,977
Subtotal	\	<u>2,505,124</u>	<u>247,442</u>	<u>25,997</u>	<u>132,284</u>	<u>2,910,847</u>	<u>(583,870)</u>	<u>2,326,977</u>
Common liabilities								616,159
Total liabilities								<u>2,943,136</u>

(in millions of Korean won)

		<u>December 31, 2021</u>						
		<u>Tobacco¹</u>	<u>Ginseng</u>	<u>Real estate</u>	<u>Others</u>	<u>Segment total</u>	<u>Adjustments</u>	<u>Consolidated</u>
Assets:								
Segment assets	\	5,356,142	2,150,747	1,379,475	257,294	9,143,658	(2,150,978)	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	\	<u>5,371,043</u>	<u>2,156,187</u>	<u>1,618,067</u>	<u>261,694</u>	<u>9,406,991</u>	<u>(2,151,195)</u>	<u>7,255,796</u>
Common assets								4,381,475
Total assets								<u>11,637,271</u>
Acquisition of non-current assets	\	209,329	166,752	86,087	21,813	483,981	(93,551)	390,430
Liabilities:								
Segment liabilities	\	1,958,575	202,057	90,547	141,388	2,392,567	(523,360)	1,869,207
Subtotal	\	<u>1,958,575</u>	<u>202,057</u>	<u>90,547</u>	<u>141,388</u>	<u>2,392,567</u>	<u>(523,360)</u>	<u>1,869,207</u>
Common liabilities								559,202
Total liabilities								<u>2,428,409</u>

4. Operating Segment (cont'd)

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

(e) Regional information by customer's location for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			2021		
	Korea	Overseas	Total	Korea	Overseas ¹	Total
Sales	\ 4,063,007	\ 1,788,399	\ 5,851,406	\ 4,023,488	\ 1,462,753	\ 5,486,241
Non-current assets	3,001,560	115,039	3,116,599	2,967,361	106,824	3,074,185

¹Overseas sales classified as profit or loss from discontinued operations of ₩257,890 million is included for the years ended December 31, 2021.

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.

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5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand	563	687
Demand deposits	565,913	495,525
Money market trust	338,906	408,723
Other cash and cash equivalents	495,636	41,636
Total	<u>1,401,018</u>	<u>946,571</u>

(b) Details of other financial assets as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Time deposits	184,040	2,402	416,700	8,707
Money market trust	17,000	-	-	-
Certificate of Deposit	-	-	40,000	239
Company stock, etc.	35	40,424	357	55
Total	<u>201,075</u>	<u>42,826</u>	<u>457,057</u>	<u>9,001</u>

6. Financial Assets measured at Fair Value through Profit or Loss

Details of financial assets measured at fair value through profit or loss as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Money market trust	375,958	5,600	965,362	17,442
Beneficiary certificate	17,148	314,829	22	287,374
Total	<u>393,106</u>	<u>320,429</u>	<u>965,384</u>	<u>304,816</u>

7. Trade and Other Receivables

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

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Trade receivables	1,366,523	-	904,504	-
Loans	19,180	52,887	17,123	60,827
Other receivables	94,904	1,087	39,855	3,612
Guarantee deposits	37,549	54,466	48,775	30,170
Accrued income	10,355	36	2,484	151
Total	1,528,511	108,476	1,012,741	94,760

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

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Total carrying amount	1,608,031	108,556	1,091,383	95,125
Allowances:				
Trade receivables	(78,666)	-	(77,675)	-
Other receivables	(854)	(80)	(967)	(365)
Subtotal	(79,520)	(80)	(78,642)	(365)
Net trade and other receivables	1,528,511	108,476	1,012,741	94,760

(c) Changes in allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	79,007	87,776
Impairment loss (reversal of impairment loss) ¹	5,419	(6,389)
Write off	(4,262)	(3,414)
Net exchange difference	(564)	1,034
Ending balance	79,600	79,007

¹ ₩828 million of reversal of impairment loss classified as profit from discontinued operations and ₩1,635 million of impairment loss classified as loss from discontinued operations are included for the years ended December 31, 2022 and 2021, respectively.

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

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8. Inventories

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

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	42,708	(3,037)	39,671	57,930	(2,609)	55,321
Finished goods	460,150	(35,719)	424,431	369,572	(37,102)	332,470
Half-finished goods and Work in progress	1,023,783	(3,596)	1,020,187	1,041,928	(3,881)	1,038,047
Raw materials	858,261	(8,763)	849,498	830,469	(8,671)	821,798
Supplies	54,325	-	54,325	51,331	-	51,331
By-products	5,160	-	5,160	6,551	-	6,551
Buildings under construction	61,597	-	61,597	5,926	-	5,926
Completed buildings	1,490	-	1,490	3,126	-	3,126
Sites for construction of real estate ¹	66,622	-	66,622	24,416	-	24,416
Goods in transit	52,988	(127)	52,861	36,395	-	36,395
Total	2,627,084	(51,242)	2,575,842	2,427,644	(52,263)	2,375,381

¹Include ₩714 million reclassified from property, plant and equipment and ₩80,807 million reclassified from investment properties (see Notes 11 and 13).

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Cost of sales:		
Loss (reversal) on valuation of inventories ¹	(2,872)	27,521
Loss on obsolescence of inventories	10,613	12,260
Other expense:		
Loss on obsolescence of inventories	232	149
Total	7,973	39,930

¹ ₩68 million of reversal of loss on valuation of inventories classified as profit from discontinued operations and ₩39,155 million of loss on valuation of inventories classified as loss from discontinued operations are included for the years ended December 31, 2022 and 2021, respectively.

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

(a) Details of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Listed:		
YTN Co. Ltd.	\ 46,761 \	24,722
Oscotech Inc.	9,134	19,325
Shinhan Financial Group Co., Ltd.	141,094	147,507
Innosys Corporation (Previously, U&I Corporation)	-	4,759
Subtotal	<u>196,989</u>	<u>196,313</u>
Unlisted	<u>9,505</u>	<u>32,085</u>
Total	<u>\ 206,494 \</u>	<u>228,398</u>

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

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

(b) Changes in financial assets measured at fair value through other comprehensive income or loss for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	\ 228,398 \	239,539
Acquisition	3,000	3,500
Changes in fair value	7,596	16,354
Disposal and reclassification	(32,500)	(30,995)
Ending balance	<u>\ 206,494 \</u>	<u>228,398</u>

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10. Investments in Associates and Joint Ventures

(a) Details of investments in associates and joint ventures as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	December 31, 2022		December 31, 2021	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePhamTech Co., Ltd. ¹	Korea	Manufacturing medical supplies	12.53	3,997	12.88	3,923
	KORAMCO Banpo PFV Co., Ltd. ^{1,7}	Korea	Real estate investment, development and rental business	18.95	2,964	18.95	4,059
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	Real estate investment, development and rental business	19.47	1,652	19.47	1,727
	KORAMCO Amsa PFV Co., Ltd. ^{1,2}	Korea	Real estate investment, development and rental business	-	-	17.84	1,048
	KOCREF 36 REIT ⁸	Korea	Real estate investment, development and rental business	21.01	24,010	21.01	24,010
	KOCREF 41 REIT ³	Korea	Real estate investment, development and rental business	26.47	46,498	-	-
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	21.43	19,521	21.43	18,081
	Kiwoom Milestone Private REIT No.16 ⁴	Korea	Real estate investment, development and rental business	-	-	45.45	15,384
	Cheongna Medipolis PFV Co., Ltd. ⁵	Korea	Real estate development and sales	56.74	15,617	56.74	17,064
	INNODIS Co., Ltd. ¹	Korea	Game, advertizing agency	19.64	514	19.64	478
	SJ BIO MED Co., Ltd. ¹	Korea	Manufacturing medical devices	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	22.73	-	23.13	-
	Mirae Asset KT&G Investment Fund I	Korea	Investment in new growth industries, etc.	50.00	4,939	-	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁶	Germany	Real estate rental business	51.35	11,712	51.35	13,426
	Starfield Suwon Inc.	Korea	Real estate development and rental business	50.00	143,110	50.00	143,792
	Total				274,534		242,992

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

²The Group has reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the current period, and the ownership was liquidated during the year ended December 31, 2022.

³The Group has reclassified the ownership as investment in associates, as the Group obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of the invested company during the year ended December 31, 2022.

⁴The Group has reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Group determined it has a significant influence over the investee; this ownership was sold during the year ended December 31, 2022.

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10. Investments in Associates and Joint Ventures (cont'd)

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

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

⁷As of December 31, 2022, The Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan.

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

(b) Details of financial information of associates and joint ventures are as follows:

① As of and for the year ended December 31, 2022

A. Summarized financial information

(in millions of Korean won)

	2022					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	15,410	50,907	16,061	18,356	39,122	(746)
KORAMCO Banpo PFV Co., Ltd.	4,212	101,287	17,343	73,400	-	(5,786)
KORAMCO Dongjak PFV Co., Ltd.	657	26,500	3,084	15,923	656	(391)
KOCREF 36 REIT	4,274	435,114	1,434	293,106	17,932	1,644
KOCREF 41 REIT	10,646	377,270	2,497	209,757	16,199	(8,628)
AndaStation Professional Investment Private REIT No.1	10,850	310,372	3,569	237,331	15,977	3,034
Cheongna Medipolis PFV Co., Ltd.	15,373	-	138	-	-	(7,886)
INNODIS Co., Ltd.	2,261	7,150	1,172	5,621	7,002	126
Mirae Asset KT&G Investment Fund I	10,067	-	190	-	-	(123)
KORAMCO Europe Private REIT 3-2 Fund	3,399	106,131	3,299	81,377	5,399	(960)
Starfield Suwon Inc.	6,233	422,631	28,185	114,459	-	(1,358)

B. Additional financial information on joint ventures

(in millions of Korean won)

	2022						
	Cash and cash equivalents	Current financial liabilities ¹	Non-current financial liabilities ¹	Depreciation expense	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	1,869	1,558	80,178	3,320	138	1,462	39
Starfield Suwon Inc.	1,096	-	114,418	-	117	-	-

¹Exclude trade payables, other payables and provisions.

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10. Investments in Associates and Joint Ventures (cont'd)

② As of and for the year ended December 31, 2021

A. Summarized financial information

(in millions of Korean won)

	2021					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	17,014	29,411	13,082	2,891	25,797	152
KORAMCO Banpo PFV Co., Ltd.	2,363	81,684	512	63,000	1,840	(6,498)
KORAMCO Dongjak PFV Co., Ltd.	599	25,120	1,199	15,983	659	(373)
KOCREF 36 REIT8	285	18,034	1,498	11,175	458	(409)
KOCREF 41 REIT3	3,031	439,603	937	293,046	1,426	(713)
AndaStation Professional Investment Private REIT No.1	9,775	312,600	4,367	237,517	5,076	674
Kiwoom Milestone Private Placement Real Estate Investment Trust No.167	7,084	73,243	5,481	41,000	5,572	2,847
Cheongna Medipolis PFV Co., Ltd.	23,297	-	176	-	-	(6,206)
KORAMCO Europe Private REIT 3-2 Fund	3,755	108,627	2,842	81,198	5,064	(1,624)
Starfield Suwon Inc.	35,388	258,193	5,966	30	-	(712)

B. Additional financial information on joint ventures

(in millions of Korean won)

	2021						
	Cash and cash equivalents	Current financial liabilities ¹	Non-current financial liabilities ¹	Depreciation expense	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	1,043	2,095	80,007	3,309	120	1,390	39
Starfield Suwon Inc.	32,967	-	-	-	174	-	-

¹Exclude trade payables, other payables and provisions.

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10. Investments in Associates and Joint Ventures (cont'd)

(c) Changes in investments in associates and joint ventures for the years ended December 31, 2022 and 2021 are as follows:

① For the year ended December 31, 2022

(in millions of Korean won)

	2022							
	Beginning balance	Acquisition	Disposal	Share of net gain (loss)	Dividends	Capital changes	Reclassification, etc. ¹	Ending balance
LitePharmTech Co., Ltd.	3,923	211	-	(151)	-	14	-	3,997
KORAMCO Banpo PFV Co., Ltd.	4,059	-	-	(1,095)	-	-	-	2,964
KORAMCO Dongjak PFV Co., Ltd.	1,727	-	-	(75)	-	-	-	1,652
KORAMCO Amsa PFV Co., Ltd.	1,048	-	-	(63)	-	-	(985)	-
KOCREF 36 REIT	24,010	-	-	1,200	(1,200)	-	-	24,010
KOCREF 41 REIT	-	29,489	(12,279)	12,934	(1,646)	-	18,000	46,498
AndaStation Professional Investment Private REIT No.1	18,081	-	-	2,394	(954)	-	-	19,521
Kiwoom Milestone Private REIT No.16	15,384	-	(30,622)	16,637	(1,399)	-	-	-
Cheongna Medipolis PFV Co., Ltd.	17,064	-	-	(1,447)	-	-	-	15,617
INNODIS Co., Ltd.	478	-	-	36	-	-	-	514
Mirae Asset KT&G Investment Fund I	-	5,000	-	(61)	-	-	-	4,939
KORAMCO Europe Private REIT 3-2 Fund	13,426	-	-	(221)	(1,298)	(195)	-	11,712
Starfield Suwon Inc.	143,792	-	-	(718)	-	36	-	143,110
Total	242,992	34,700	(42,901)	29,370	(6,497)	(145)	17,015	274,534

¹ Includes ₩985 million of transfers to assets held for sale and ₩18,000 million of transfers from financial assets measured at fair value through other comprehensive income due to the acquisition of significant influence over the invested company resulting from increase in its ownership percentage after the disproportionate capital decrease of the invested company during the year ended December 31, 2022.

② For the year ended December 31, 2021

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Share of net gain (loss)	Dividends	Capital changes	Reclassification, etc.	Ending balance
LitePharmTech Co., Ltd.	3,268	634	13	-	8	-	3,923
KORAMCO Ocheon PFV Co., Ltd.	5,705	-	(219)	(18)	-	(5,468)	-
KORAMCO Banpo PFV Co., Ltd.	5,290	-	(1,231)	-	-	-	4,059
KORAMCO Dongjak PFV Co., Ltd.	1,800	-	(73)	-	-	-	1,727
KORAMCO Amsa PFV Co., Ltd.	1,121	-	(73)	-	-	-	1,048
KOCREF 36 REIT	-	-	11,081	(2,071)	-	15,000	24,010
AndaStation Professional Investment Private REIT No.1	-	17,764	798	(481)	-	-	18,081
Kiwoom Milestone Private REIT No.16	-	-	1,597	(1,213)	-	15,000	15,384
Cheongna Medipolis PFV Co., Ltd.	-	17,022	42	-	-	-	17,064
INNODIS Co., Ltd.	443	-	35	-	-	-	478
KORAMCO Europe Private REIT 3-2 Fund	15,342	-	(631)	(1,259)	(26)	-	13,426
Starfield Suwon Inc.	99,218	45,000	(428)	-	2	-	143,792
Total	132,187	80,420	10,911	(5,042)	(16)	24,532	242,992

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10. Investments in Associates and Joint Ventures (cont'd)

(d) Reconciliation of the summarized financial information presented to the carrying amount of the Group's investments in associates and joint ventures as of December 31, 2022 and 2021 are as follows:

① As of December 31, 2022

(in millions of Korean won)

	December 31, 2022					
	Net assets	Ownership (%)	Share of net assets ¹	Goodwill	Preferred stock effect	Carrying amount
LitePharmTech Co., Ltd.	31,900	12.53	3,997	-	-	3,997
KORAMCO Banpo PFV Co., Ltd.	14,756	18.95	2,797	167	-	2,964
KORAMCO Dongjak PFV Co., Ltd.	8,150	19.47	1,587	65	-	1,652
KOCREF 36 REIT	144,848	21.01	30,432	-	(6,422)	24,010
KOCREF 41 REIT	175,662	26.47	46,498	-	-	46,498
AndaStation Professional Investment Private REIT No.1	80,322	21.43	17,213	270	2,038	19,521
Cheongna Medipolis PFV Co., Ltd.	15,235	56.74	8,644	382	6,591	15,617
INNODIS Co., Ltd.	2,618	19.64	514	-	-	514
Mirae Asset KT&G Investment Fund I	9,877	50.00	4,939	-	-	4,939
KORAMCO Europe Private REIT 3-2 Fund	24,854	51.35	11,712	-	-	11,712
Starfield Suwon Inc.	286,220	50.00	143,110	-	-	143,110

¹It is the share of net assets in associates and joint ventures corresponding to the Parent Company's ownership.

② As of December 31, 2021

(in millions of Korean won)

	December 31, 2021					
	Net assets	Ownership (%)	Share of net assets ¹	Goodwill	Preferred stock effect	Carrying amount
LitePharmTech Co., Ltd.	30,452	12.88	3,923	-	-	3,923
KORAMCO Banpo PFV Co., Ltd.	20,535	18.95	3,892	167	-	4,059
KORAMCO Dongjak PFV Co., Ltd.	8,537	19.47	1,662	65	-	1,727
KORAMCO Amsa PFV Co., Ltd.	5,646	17.84	1,007	41	-	1,048
KOCREF 36 REIT	148,651	21.01	31,229	-	(7,219)	24,010
AndaStation Professional Investment Private REIT No.1	80,491	21.43	17,248	270	563	18,081
Kiwoom Milestone Private REIT No.16	33,846	45.45	15,384	-	-	15,384
Cheongna Medipolis PFV Co., Ltd.	23,121	56.74	13,119	382	3,563	17,064
KORAMCO Europe Private REIT 3-2 Fund	28,342	51.35	13,426	-	-	13,426
Starfield Suwon Inc.	287,585	50.00	143,792	-	-	143,792

¹It is the share of net assets in associates and joint ventures corresponding to the Parent Company's ownership.

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11. Property, Plant and Equipment

(a) Details of carrying amount of property, plant and equipment as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	490,691	-	490,691	510,767	-	510,767
Buildings	1,117,114	(610,378)	506,736	1,120,773	(592,520)	528,253
Structures	74,682	(45,627)	29,055	70,890	(45,280)	25,610
Machinery	1,767,654	(1,271,960)	495,694	1,675,559	(1,185,487)	490,072
Vehicles	9,128	(6,808)	2,320	8,519	(6,467)	2,052
Tools	87,414	(65,926)	21,488	78,748	(60,624)	18,124
Equipment	193,812	(152,232)	41,580	192,149	(147,413)	44,736
Others	5,087	(377)	4,710	4,741	(351)	4,390
Construction in progress	244,767	-	244,767	117,038	-	117,038
Total	3,990,349	(2,153,308)	1,837,041	3,779,184	(2,038,142)	1,741,042

(b) Changes in property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022						Ending balance
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ¹	
Land	510,767	2,966	(717)	-	-	(22,325)	490,691
Buildings	528,253	15,795	(407)	(36,779)	-	(126)	506,736
Structures	25,610	1,785	(81)	(3,524)	-	5,265	29,055
Machinery	490,072	35,773	(334)	(87,815)	(712)	58,710	495,694
Vehicles	2,052	1,269	(262)	(957)	-	218	2,320
Tools	18,124	12,546	(25)	(8,438)	(1,255)	536	21,488
Equipment	44,736	18,385	(654)	(23,271)	(329)	2,713	41,580
Others	4,390	162	-	(25)	-	183	4,710
Construction in progress	117,038	203,124	(315)	-	(20)	(75,060)	244,767
Total	1,741,042	291,805	(2,795)	(160,809)	(2,316)	(29,886)	1,837,041

¹Consists of ₩39,968 million of transfers to investment properties, ₩713 million of transfers to inventories, ₩120 million of transfers from intangible assets, and ₩1,867 million of transfers to intangible assets (see Notes 8, 12 and 13) for the year ended December 31, 2022.

²During the year ended December 31, 2022, the Group has capitalized ₩2,378 million of borrowing costs on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.13~3.77%.

(in millions of Korean won)

	2021						Ending balance
	Beginning balance	Acquisition	Disposal	Depreciation ¹	Impairment ¹	Reclassification, etc. ²	
Land	494,160	84	(125)	-	-	16,648	510,767
Buildings	563,395	8,289	(167)	(37,072)	(303)	(5,889)	528,253
Structures	26,450	772	(112)	(3,353)	-	1,853	25,610
Machinery	455,882	17,890	(1,540)	(84,249)	168	101,921	490,072
Vehicles	1,619	1,039	(2)	(729)	-	125	2,052
Tools	16,395	9,010	(243)	(7,606)	(123)	691	18,124
Equipment	55,803	12,714	(451)	(24,616)	(649)	1,935	44,736
Others	4,784	-	(257)	(136)	-	(1)	4,390
Construction in progress	99,924	168,965	(145)	-	-	(151,706)	117,038
Total	1,718,412	218,763	(3,042)	(157,761)	(907)	(34,423)	1,741,042

¹Depreciation of ₩336 million and impairment loss of ₩771 million classified as profit or loss from discontinued operations are included.

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11. Property, Plant and Equipment (cont'd)

²Consists of ₩36,703 million of transfers to investment properties, ₩5,440 million of transfers to assets held for sale, and ₩272 million of transfers to intangible assets (Notes 12, 13 and 14).

³During the year, the Group has capitalized borrowing costs amounting to ₩1,922 million on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.69%.

12. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Goodwill	108,093	(108,093)	-	108,093	(108,093)	-
Industrial property rights	58,563	(36,310)	22,253	57,014	(38,385)	18,629
Facility usage rights	40,171	(395)	39,776	40,278	(720)	39,558
Intangible assets under development	33,572	(3,359)	30,213	48,959	(3,359)	45,600
Other intangible assets	218,436	(142,827)	75,609	166,932	(125,000)	41,932
Total	458,835	(290,984)	167,851	421,276	(275,557)	145,719

(b) Changes in intangible assets for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. ¹	Ending balance
Industrial property rights	18,629	1,893	(363)	(415)	(237)	2,746	22,253
Facility usage rights	39,558	525	(307)	-	-	-	39,776
Intangible assets under development	45,600	20,455	(51)	-	(139)	(35,652)	30,213
Other intangible assets	41,932	21,173	(16)	(21,878)	(34)	34,432	75,609
Total	146,719	44,046	(737)	(22,293)	(410)	1,526	167,851

¹Consists of ₩120 million of transfers to property, plant and equipment and ₩1,867 million of transfers from property, plant and equipment (see Note 11).

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment ¹	Reclassification, etc. ²	Ending balance
Goodwill	16,355	-	-	-	(16,904)	549	-
Industrial property rights	13,160	2,160	(33)	(550)	(11)	3,903	18,629
Facility usage rights	37,741	1,291	(252)	-	(29)	807	39,558
Intangible assets under development	22,507	35,689	(2)	-	(1,606)	(10,988)	45,600
Other intangible assets	44,321	4,530	(171)	(13,944)	(394)	7,590	41,932
Total	134,084	43,670	(458)	(14,494)	(18,944)	1,861	145,719

¹An impairment assessment was performed on the CGUs of Indonesian tobacco business, and the difference between the carrying amount and the recoverable amount of the assessed CGU was recognized as an impairment loss. The amount stated above includes impairment of goodwill of ₩16,904 million and impairment of other intangible assets of ₩394 million.

²Consists of ₩792 million of transfers to property, plant and equipment (see Note 11).

12. Intangible Assets (cont'd)

(c) Research and development expenses recognized as expenses for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Cost of sales	1,438	1,723
Selling, general and administrative expenses	50,531	63,544
Total	<u>51,969</u>	<u>65,267</u>

(d) Impairment assessment on CGUs (including goodwill)

The Group reviews if there is any indication of impairment for the CGUs, and if an indication of impairment is found, the Group estimates the recoverable amount and performs an impairment assessment. As a result of the impairment assessment of the CGUs that had an indication of impairment, during for the year ended December 31, 2021, an impairment loss was recognized in the CGUs of the Indonesian tobacco business and the recoverable amount estimated based on value in use calculation.

During for the year ended December 31, 2021, future cash flows to measure value in use are estimated for the next five years based on the Group's past operating performance and future business plans, and subsequent cash flows are estimated by applying a 1% permanent growth rate. This permanent growth rate does not exceed the estimated long-term average growth rates from relevant industry reports.

Discount rate for value in use is the weighted average cost of capital adjusted to reflect the risks specific to the asset. The discount rates used for value in use calculation for the year ended December 31, 2021, are as follows:

<i>(in percentage)</i>	<u>2021</u>
CGUs of the Indonesian tobacco business	14.80

(e) Individually significant intangible assets

Details of individually significant intangible assets other than goodwill as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>Useful life</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
SAP system development	Intangible assets under development	8,839	24,529
	Other intangible assets	36,185	-

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13. Investment Properties

(a) Details of carrying amount of investment properties as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	617,835	(1,029)	616,806	708,486	(1,029)	707,457
Buildings	656,443	(217,664)	438,779	547,249	(152,843)	394,406
Right-of-use assets	655	(654)	1	721	(491)	230
Construction in progress	15,877	-	15,877	48,887	-	48,887
Total	1,290,810	(219,347)	1,071,463	1,305,343	(154,363)	1,150,980

(b) Changes in investment properties for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022						
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ¹	Ending balance
Land	707,457	5,755	(248)	-	-	(96,158)	616,806
Buildings	394,406	11,642	(759)	(22,155)	(21,928)	77,573	438,779
Right-of-use assets	230	77	(143)	(154)	-	(9)	1
Construction in progress	48,887	11,909	-	-	-	(44,919)	15,877
Total	1,150,980	29,383	(1,150)	(22,309)	(21,928)	(63,513)	1,071,463

¹Consists of ₩80,807 million of transfers to inventories, ₩39,968 million of transfers from property, plant and equipment, and ₩22,647 million of transfers to assets held for sale (see Notes 8, 11 and 14).

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Reclassification, etc. ¹	Ending balance
Land	604,771	81,424	(2)	-	1,745	19,519	707,457
Buildings	404,058	548	(537)	(21,252)	-	11,589	394,406
Right-of-use assets	833	84	(277)	(405)	-	(5)	230
Construction in progress	20,517	28,332	-	-	-	38	48,887
Total	1,030,179	110,388	(816)	(21,657)	1,745	31,141	1,150,980

¹Consists of ₩1,614 million of transfers from inventories, ₩36,703 million of transfers from property, plant and equipment, and ₩7,216 million of transfers to assets held for sale (see Notes 11 and 14).

(c) Details of profit or loss recognized in relation to the investment properties for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Rental income	74,377	66,183
Operating expenses	(23,045)	(22,053)
Total	51,332	44,130

13. Investment Properties (cont'd)

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	1,416,251	444,301	1,214,874	649,725
Buildings	531,704	414,122	464,392	394,406
Right-of-use asset	2	2	230	230
Total	1,947,957	858,425	1,679,496	1,044,361

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

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

(in millions of Korean won)

	Type	Carrying amount		Reason why fair value cannot be measured reliably
		December 31, 2022	December 31, 2021	
Hogye-dong development site	Land	124,576	-	Demolition in progress
Ssangmun-dong development site	Land	1,495	1,495	Construction in progress
	Buildings	24,656	-	
	Construction in progress	-	26,183	
Mia-dong development site	Land	41,264	-	
	Construction in progress	717	-	
Donggwang-dong development site	Construction in progress	475	-	
Anyang-dong development site	Construction in progress	364	-	
Nokbeon-dong development site	Construction in progress	151	-	
Sangbong-dong development site	Land	-	51,068	
	Construction in progress	-	17,883	
Seoicheon development site	Construction in progress	461	-	
Gwacheon Sangsang Xi Tower	Land	5,169	5,169	
	Construction in progress	13,710	4,821	
Total		213,038	106,619	

13. Investment Properties (cont'd)

(e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2022, variable lease payment that is based on an index or a rate was ₩2,494 million. Even though the Group is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment properties.

Details of future minimum lease payments that the Group expects to receive from operating lease contracts for the investment properties described above as of December 31, 2022, are as follows:

(in millions of Korean won)

	December 31, 2022			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	40,218	45,377	991	86,586

14. Assets Held for Sale

Changes in assets held for sale for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	20,124	2,681
Reclassification, etc. ¹	23,632	18,047
Disposal	(43,756)	(604)
Ending balance	-	20,124

¹ Consists of ₩22,647 million of transfers from investment properties during the year ended December 31, 2022 (2021: ₩7,216 million), ₩985 million of transfers from investments in associates during the year ended December 31, 2022 (2021: ₩5,685 million), ₩5,440 million of transfers from property, plant and equipment during the year ended December 31, 2021 (see Notes 10 and 13).

15. Right-of-use Assets

(a) Details of the carrying amount of right-of-use assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022			December 31, 2021		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	6,710	(1,541)	5,169	6,879	(1,441)	5,438
Buildings	56,312	(33,069)	23,243	47,540	(29,250)	18,290
Machinery	117	(59)	58	-	-	-
Vehicles	25,318	(13,544)	11,774	26,969	(14,252)	12,717
Total	88,457	(48,213)	40,244	81,388	(44,943)	36,445

(b) Changes in right-of-use assets for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	5,438	10	-	(145)	(134)	5,169
Buildings	18,290	21,971	(293)	(12,820)	(3,905)	23,243
Machinery	-	120	(3)	(59)	-	58
Vehicles	12,717	7,618	(1,787)	(7,020)	246	11,774
Total	36,445	29,719	(2,083)	(20,044)	(3,793)	40,244

(in millions of Korean won)

	2021						
	Beginning balance	Acquisition	Disposal	Depreciation ¹	Impairment ¹	Others	Ending balance
Land	4,998	-	-	(131)	-	571	5,438
Buildings	29,188	11,912	(1,476)	(15,376)	(6,393)	435	18,290
Machinery	30	-	-	(30)	-	-	-
Vehicles	14,872	5,697	(214)	(7,711)	(405)	478	12,717
Total	49,088	17,609	(1,690)	(23,248)	(6,798)	1,484	36,445

¹Depreciation of ₩1,688 million and impairment of ₩6,798 million classified as profit or loss from discontinued operations are included.

15. Right-of-use Assets (cont'd)

(c) The amounts recognized on the consolidated statements of comprehensive income related to lease for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Depreciation expense	20,044	23,248
Interest expense	793	1,277
Short-term lease expense	5,451	3,002
Lease payment for low-value assets	8,907	690
Variable lease expense	77,058	71,922
Impairment loss on right-of-use assets	-	6,798
Loss on lease contract adjustments	(294)	(486)
Total	<u>111,959</u>	<u>106,451</u>

¹Depreciation expense of ₩1,688 million, interest expense of ₩249 million, and impairment loss on right-of-use assets of ₩6,798 million classified as profit or loss from discontinued operations are included for the year ended December 31, 2021.

For the year ended December 31, 2022, total cash outflows related to lease is ₩112,551 million (2021: ₩100,169 million).

(d) For the year ended December 31, 2021, the Group recognized ₩8 million of interest income related to sublease.

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16. Borrowings

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

<i>(in millions of Korean won)</i>	Lender	Annual interest rate (%)	December 31, 2022	December 31, 2021
Borrowings	Hana Bank	FTP+0.984~1.2	7,000	4,000
		Bank Debenture (6 months)+1.62	3,000	3,000
		3.50	-	8,000
		Benchmark Interest rate+1.75	7,805	-
	Hana Bank Bahrain branch	3M LIBOR+1.1 ~ CME Term SOFR(3 months)+1.2	5,686	5,344
	KB Kookmin Bank	3.50	-	40,000
		Benchmark Interest rate+1.75	39,025	-
	Shinhan Bank	Bank Debenture (6 months)+1.13~1.47	10,000	10,000
		Internal interest rate+1.12	-	1,000
	Korea Development Bank	Industrial Financial Debenture (1 year)+1.15	-	3,500
NH Nonghyup Bank	3.87	19	-	
	Subtotal	<u>72,535</u>	<u>74,844</u>	
Consumer credit agreements ¹	NH Nonghyup Bank	-	75	437
	Hana Card	-	19	152
	Subtotal		<u>94</u>	<u>589</u>
	Total		<u>72,629</u>	<u>75,433</u>

¹The 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 incurs on payment guarantees.

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

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)	December 31, 2022	December 31, 2021
Other financial loan for working capital ¹	NH Nonghyup Bank	2024.06.10~ 2027.06.20	-	51,308	51,569
	KB Kookmin Bank	2023.09.11	MOR(6 months)+1.03	825	1,925
			MOR(6 months)+1.58	801	1,867
Borrowings	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66	10,000	-
		2024.12.01	Industrial Financial Debenture (6 months)+1.44	20,000	-
		Total		<u>82,934</u>	<u>55,361</u>
Consolidated statements of financial position:					
				4,126	2,166
Current				78,808	53,195
Non-current				<u>82,934</u>	<u>55,361</u>
	Total			<u>82,934</u>	<u>55,361</u>

¹ Borrowings above are 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 33, the Group provides collaterals for the above borrowings.

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17. Trade and Other Payables

Details of trade and other payables as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Leasehold deposits received	26,218	14,340	31,772	12,650
Trade payables	220,898	-	60,337	-
Withholdings	9,768	-	8,819	-
Value-added deposit	185,513	-	182,942	-
Accrued expenses	303,879	38,556	265,993	43,885
Other payables	759,520	-	421,257	899
Total	1,505,796	52,896	971,120	57,434

18. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Defined benefit plans:		
Current service cost	52,296	55,589
Net interest on net defined benefit liabilities (assets)	1,392	2,819
Past service costs and settlement gain and loss	2,114	(123)
Subtotal	55,802	58,285
Defined contribution plan:		
Contributions recognized as expense	6,759	6,718
Other long-term employee benefits:		
Current service cost, etc.	(2,129)	17,070
Termination benefits:		
Voluntary retirements, etc.	22,029	1,969
Total	82,461	84,042

18. Employee Benefits (cont'd)

(b) Changes in net defined benefit liabilities (assets) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Beginning balance	46,600	112,914
Current service cost	52,296	55,589
Net interest of net defined benefit liabilities	1,392	2,819
Past service costs and settlement gain and loss	2,114	(123)
Remeasurement element of net defined benefit liabilities (assets) (before tax)	(86,209)	(57,371)
Payment amount	(10,575)	(6,878)
Payment of plan assets	(82,641)	(60,920)
Net exchange differences	(187)	570
Ending balance	<u>(77,210)</u>	<u>46,600</u>
Consolidated statements of financial positions:		
Present value of defined benefit obligations	520,980	585,308
Fair value of plan assets	(598,190)	(538,708)
Total	<u>(77,210)</u>	<u>46,600</u>

(c) Changes in the present value of defined benefit obligations for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Beginning balance	585,308	600,984
Current service cost	52,296	55,589
Interest expense	14,874	13,090
Past service costs and settlement gain and loss	2,114	(123)
Remeasurement element (before tax)	(88,733)	(58,553)
Payment amount	(44,692)	(26,249)
Net exchange differences	(187)	570
Ending balance	<u>520,980</u>	<u>585,308</u>

18. Employee Benefits (cont'd)

(d) Changes in fair value of plan assets for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	538,708	488,070
Interest income	13,482	10,271
Remeasurement element (before tax)	(2,524)	(1,182)
Payment amount	(34,117)	(19,371)
Payment of plan assets	82,641	60,920
Ending balance	<u>598,190</u>	<u>538,708</u>

The actual amount of interest income arising from plan assets for the years ended December 31, 2022 and 2021 is ₩10,958 million and ₩9,090 million, respectively.

(e) Changes in the present value of other long-term employee benefits for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	43,885	31,687
Current service cost	4,942	3,922
Past service cost	112	12,826
Interest expense	1,066	663
Remeasurement element (before tax)	(8,249)	(341)
Payment amount	(3,277)	(4,887)
Net exchange differences	(21)	15
Ending balance	<u>38,458</u>	<u>43,885</u>

18. Employee Benefits (cont'd)

(f) Details of remeasurements recognized in other comprehensive income or loss for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions \	(423) \	4,056
Changes in financial assumptions	101,042	46,768
Experience adjustments	(11,886)	7,729
Subtotal	<u>88,733</u>	<u>58,553</u>
Revenue (loss) from plan assets, excluding amounts included in net interest	(2,524)	(1,182)
Remeasurement element of net defined liabilities (assets) (before tax)	86,209	57,371
Tax effect	(21,431)	(14,809)
Remeasurement element of net defined liabilities (assets) (after tax) \	<u>64,778</u> \	<u>42,562</u>

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Regular deposits and cash equivalents \	185,863 \	116,106
Principal and interest guarantee financial assets	412,327	422,602
Total	<u>598,190</u>	<u>538,708</u>

(h) The major assumptions used for actuarial evaluation as of December 31, 2022 and 2021 are as follows:

<i>(in percentage)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate	5.12 ~ 24.65	2.44 ~ 24.65
Expected wage increase rate	3.00 ~ 20.00	3.00 ~ 20.00

To calculate the present value of the defined benefit obligation, the Group decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2022.

18. Employee Benefits (cont'd)

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>Increase by 1%</u>	<u>Decrease by 1%</u>
Changes in discount rate	\ (30,710) \	40,041
Changes in expected wage increase rate	40,903	(31,997)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2022.

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

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

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2023 is ₩41,434 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2022 and 2021 are 8.06 years and 8.41 years, respectively.

19. Refund Liabilities and Provisions

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

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Provision for product warranty	\ 4,172 \	-	\ 4,915 \	-
Refund liabilities	14,141	4,168	14,340	3,367
Provision for site restoration	1,764	537	3,497	1,604
Provision for financial guarantee	-	134	21	250
Provision for greenhouse gases	194	-	269	-
Provision for others	1,292	14,115	3,089	1
Total	\ <u>21,563</u> \	\ <u>18,954</u> \	\ <u>26,131</u> \	\ <u>5,222</u> \

19. Refund Liabilities and Provisions (cont'd)

(b) Changes in refund liabilities and provisions for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,915	-	(743)	4,172
Refund liabilities	17,707	4,922	(4,320)	18,309
Provision for site restoration	5,101	2,702	(5,502)	2,301
Provision for financial guarantee	271	-	(137)	134
Provision for greenhouse gases	269	-	(75)	194
Provision for others	3,090	14,263	(1,946)	15,407
Total	<u>31,353</u>	<u>21,887</u>	<u>(12,723)</u>	<u>40,517</u>

(in millions of Korean won)

	2021			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	4,464	2,500	(2,049)	4,915
Refund liabilities	11,242	14,565	(8,100)	17,707
Provision for site restoration	13,476	632	(9,007)	5,101
Provision for financial guarantee	622	-	(351)	271
Provision for greenhouse gases	178	354	(263)	269
Provision for others	719	2,371	-	3,090
Total	<u>30,701</u>	<u>20,422</u>	<u>(19,770)</u>	<u>31,353</u>

(c) For returnable sales, the Group sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales and deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022	December 31, 2021
Refund assets	984	1,036

(d) The Group sets up provision for product warranties by estimating the expected warranty amount at the time of sales.

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

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

19. Refund Liabilities and Provisions (cont'd)

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

(h) The Group has signed an agreement with Iran Tobacco Company to manufacture more than a certain quantity of cigarettes each year. The Group has recognized penalty payments of ₩684 million expected to be paid in the future as (current) other provisions, related to actual production quantities being less than the quantity agreed upon by the agreement. Also, in order to actively respond to changes in external environment, the expected amount of ₩607 million for rationalization plan for management, including manpower restructuring, is recognized as other provisions.

(i) The Group recognized ₩14,114 million of penalties and overdue interests incurring due to the ruling on the first trial of lawsuit as other provisions, since it is highly probable that an outflow of resources will be required to settle the obligation.

20. Share Capital and Other Capital Surplus

There have been no changes to share capital and other capital surplus during the years ended December 31, 2022 and 2021. Details of share capital and other capital surplus as of December 31, 2022 and 2021 are as follows:

<i>(in shares and millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share <i>(in won)</i>	\ 5,000 \	5,000
Issued	137,292,497 shares	137,292,497 shares
Share capital	954,959	954,959
Other capital surplus	4,498	4,498

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

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21. Treasury Shares and Gain on Disposal of Treasury Shares

(a) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2022 and 2021 are as follows:

<i>(in shares and millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of treasury shares	21,012,574 shares	17,312,574 shares
Treasury shares	\ (1,236,933) \	(879,982)
Gain on disposal of treasury shares	528,894	528,894

(b) Changes in the number of treasury shares for the years ended December 31, 2022 and 2021 are as follows:

<i>(in shares)</i>	<u>2022</u>	<u>2021</u>
Beginning balance	17,312,574	13,212,574
Acquisition of treasury shares	3,700,000	4,100,000
Ending balance	<u>21,012,574</u>	<u>17,312,574</u>

The Group has acquired 3,700,000 treasury shares (2021: 4,100,000 treasury shares) through a transaction on exchange during the year ended December 31, 2022.

22. Reserves

(a) Details of reserves as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Profit reserve	\ 602,937 \	602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,564,595	5,263,383
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss	(33,272)	(47,534)
Exchange differences on translating foreign operations	(33,631)	(40,386)
Capital changes in equity method	(75)	29
Total	<u>\ 6,812,286 \</u>	<u>6,490,161</u>

22. Reserves (cont'd)

① Legal reserve

The commercial law stipulates that the Group shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of the December 31, 2022 and 2021, the profit reserve set aside in excess of 50% of the Parent Company's share capital is ₩125,457 million.

② Reserve for business rationalization

Until 2002, the Parent Company had put the tax deduction amount under *Restriction on Special Taxation Act* as a reserve for business rationalization, which could only be used to preserve and transfer capital losses. However, *Restriction on Special Taxation Act* was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

③ Reserve for business expansion and other reserve

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

(b) Details of gain and loss on valuation of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	\ (47,001)	\ (66,598)
Tax effect	13,729	19,064
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	<u>\ (33,272)</u>	<u>\ (47,534)</u>

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23. Retained Earnings

Changes in retained earnings for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	2,060,255	2,102,475
Dividends	(575,904)	(595,584)
Transfer to other reserve	(301,213)	(464,638)
Profit for the year	1,005,327	971,759
Less: Non-controlling interests	10,458	5,500
Transfer from loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings or loss	(8,445)	(843)
Remeasurements of net defined benefit liabilities (after tax)	64,777	42,562
Less: non-controlling interests (after tax)	(3,315)	(976)
Ending balance	2,251,940	2,060,255

24. Real Estate Pre-sales Contracts

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

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2022				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period) ¹	Cost (cumulative) ²
Suwon Hwaseo Prugio Briciel ePyeonhansesang	June 2020	September 2023	83.52	803,056	750,352	626,691	381,816	282,858
Daejeon Station Centum Vista	December 2022	June 2026	3.07	226,951	17,066	525	525	413
Gwacheon Sangsang Xi tower B	January 2021	May 2025	87.76	239,568	239,568	206,328	131,075	119,621
	Total			1,269,575	1,006,986	833,544	513,416	402,892

¹Excludes sales revenue of ₩4,208 million of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of December 31, 2022.

²Excludes the cumulative costs for common infrastructure, amounting to ₩102,090 million.

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24. Real Estate Pre-sales Contracts (cont'd)

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2021				
				Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ¹
Suwon Hwaseo Park Prugio (Apartment)	June 2018	August 2021	100.00	1,212,711	1,212,711	1,212,154	300,169	535,019
Suwon Hwaseo Park Prugio (Efficiency apartment)	October 2018	August 2021	100.00	112,049	112,049	109,719	29,610	67,853
Suwon Hwaseo Park Prugio (Commercial facility)	January 2021	August 2021	100.00	60,443	60,443	57,262	57,262	16,590
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	32.61	791,406	750,989	244,875	182,650	110,105
Gwacheon Sangsang Xi tower B	January 2021	May 2023	31.67	239,568	239,568	75,253	75,253	42,195
Total				2,416,177	2,375,760	1,699,263	644,944	771,762

¹Excludes the cumulative costs for common infrastructure, amounting to ₩59,354 million.

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

(in millions of Korean won)

Construction project	December 31, 2022			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	626,691	375,778	252,461	1,548
ePyeonhangesang Daejeon Station Centum Vista	525	1,770	-	1,245
Gwacheon Sangsang Xi tower B	206,329	115,868	90,461	-
Total	833,545	493,416	342,922	2,793

(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 year ended December 31, 2022. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2022, and subject to change in the future.

25. Operating Expenses

(a) Details of expenses¹ classified by nature, incurred for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Changes in inventories	\ (200,461)	\ 159,652
Raw materials etc. used and merchandise purchased	1,865,080	1,515,616
Salaries	712,025	674,940
Retirement and termination benefits	84,590	66,973
Depreciation	203,162	202,666
Amortization	22,293	14,494
Employee welfare	115,511	101,012
Advertising	311,552	300,972
Commissions	708,316	650,526
Other expenses	772,075	505,426
Total	\ <u>4,594,143</u>	\ <u>4,192,277</u>

¹Includes the profit or loss from discontinued operations, amounting to ₩10,387 million and ₩302,309 million for the years ended December 31, 2022 and 2021, respectively.

25. Operating Expenses (cont'd)

(b) Details of selling, general and administrative expenses¹ for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Salaries	\ 484,221	\ 454,192
Retirement and termination benefits	56,858	44,476
Employee welfare	77,002	70,354
Travel expenses	20,133	9,369
Communication cost	6,033	5,715
Utilities	12,665	11,297
Taxes and dues	31,471	29,524
Supplies	6,130	6,068
Rent	19,642	14,983
Depreciation	55,238	59,336
Amortization	22,008	14,339
Repairs and maintenance	8,236	8,438
Vehicles	7,737	7,047
Insurance	2,674	6,303
Commissions	441,004	408,578
Freight and custody	69,744	71,291
Conferences	4,402	2,751
Advertising	311,458	300,906
Education and training	5,568	4,845
Prizes and rewards	2,771	2,315
Cooperation	1,841	1,126
Research and development	50,531	63,544
Impairment loss (reversal of impairment loss) on trade receivables	5,610	(6,051)
Total	\ <u>1,702,977</u>	\ <u>1,590,746</u>

¹Includes the profit or loss from discontinued operations, amounting to ₩10,387 million and ₩50,958 million for the years ended December 31, 2022 and 2021, respectively.

26. Other Income and Expense

(a) Details of other income¹ for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Gain on foreign currency transaction	90,589	41,093
Gain on foreign currency translation	119,766	129,849
Gain on valuation of derivatives	33,742	1,368
Reversal of impairment loss on other receivables	191	634
Gain on disposal of property, plant and equipment	3,900	2,043
Gain on disposal of intangible assets	1	-
Reversal of impairment loss on property, plant and equipment	-	168
Gain on disposal of investment properties	1,901	30
Gain on lease contract adjustments	302	515
Gain on disposal of equity method investments	192	634
Gain on disposal of assets held for sale	34,081	-
Reversal of impairment loss on investment properties	-	1,745
Miscellaneous income	18,810	10,668
Total	<u>303,475</u>	<u>188,747</u>

¹Includes the profit or loss from discontinued operations, amounting to ₩3,831 million and ₩348 million for the years ended December 31, 2022 and 2021, respectively.

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26. Other Income and Expense (cont'd)

(b) Details of other expense¹ for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Loss on foreign currency transaction	35,693	8,480
Loss on foreign currency translation	69,643	33,421
Loss on disposal of subsidiary	43	-
Loss on valuation of derivatives	65,277	23,123
Loss on impairment of other receivables	-	297
Loss on disposal of property, plant and equipment	1,627	2,657
Loss on impairment of right-of-use assets	-	6,798
Loss on impairment of property, plant and equipment	2,316	1,075
Loss on disposal of intangible assets	438	213
Loss on impairment of intangible assets	410	18,944
Loss on impairment of investment properties	21,928	-
Loss on disposal of investment properties	731	128
Loss on disposal of assets held for sale	1,218	305
Donations	9,254	46,879
Loss on lease contract adjustments	8	29
Miscellaneous loss	24,077	10,316
Total	<u>232,663</u>	<u>152,665</u>

¹Includes the profit or loss from discontinued operations, ₩2,034 million and ₩7,674 million for the years ended December 31, 2022 and 2021, respectively.

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27. Finance Income and Costs

(a) Details of finance income and costs¹ for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Finance income:		
Interest income ¹	\ 36,784	\ 13,856
Dividend income	27,280	24,143
Gain on adjustment of debt	-	10,366
Gain on valuation of financial assets measured at fair value through profit or loss	67,349	30,389
Total finance income	\ <u>131,413</u>	\ <u>78,754</u>
Finance cost:		
Interest expense	\ 34,772	\ 17,844
Loss on valuation of fair value through other comprehensive income or loss	-	100
Loss on valuation of financial assets measured at fair value through profit or loss	42,468	14,206
Other financial expense	10,300	-
Total finance cost	\ <u>87,540</u>	\ <u>32,150</u>
Net finance income ²	\ <u>43,873</u>	\ <u>46,604</u>

¹ ₩248 million of finance costs classified as the profit or loss from discontinued operations for the year ended December 31, 2021 are included.

² Interest income stated above is generated from financial instruments measured at amortized cost.

(b) Details of interest income included in finance income for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Deposits ¹	\ 17,003	\ 8,526
Trade and other receivables	4,684	3,061
Long-term deposits	15,097	2,268
Others	-	1
Total	\ <u>36,784</u>	\ <u>13,856</u>

¹ ₩1 million of finance costs classified as the profit or loss from discontinued operations for the year ended December 31, 2021 are included.

27. Finance Income and Costs (cont'd)

(c) Details of interest expense¹ included in finance cost for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Trade and other payables	1,398	946
Lease liabilities ¹	792	1,276
Borrowings	3,092	600
Others	29,490	15,022
Total ²	<u>34,772</u>	<u>17,844</u>

¹ ₩1,922 million and ₩1,930 million of capitalized borrowing costs on qualifying assets are excluded from interest expense for the years ended December 31, 2022 and 2021, respectively.

² ₩249 million of finance costs classified as the profit or loss from discontinued operations for the year ended December 31, 2021 are included for the years ended December 31, 2021.

28. Income Tax Expense and Deferred Tax Asset

(a) Details of income tax expense for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Current tax on profits for the year	400,898	392,233
Adjustments with respect to past income taxes, etc.	10,553	(3,510)
Increase/decrease from temporary differences	6,784	(3,717)
Effects of income tax on non-recirculation income	(2,633)	30,795
Income tax expense	<u>415,602</u>	<u>415,801</u>
Income tax expense for continuing operations	415,602	415,441
Income tax expense for discontinued operation	-	360

28. Income Tax Expense and Deferred Tax Asset (cont'd)

(b) Details of the relationship between income tax expenses and accounting profit for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Profit before income tax expense	\ 1,420,929 \	\ 1,387,560 \
Tax rate (%)	28.13	25.92
Tax expense at domestic rates applicable to profits in the respective countries	399,800	359,589
Adjustments:		
Non-taxable income	(343)	(1,246)
Expenses not deductible for tax purposes	9,594	10,212
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	13,649	34,408
Tax credit	(19,033)	(14,372)
Adjustments with respect to past income taxes	10,553	(3,510)
Effects of corporate earnings circulation tax	(2,633)	30,795
Others	4,016	(75)
Income tax expense	\ <u>415,603</u> \	\ <u>415,801</u> \
Average effective tax rate (%)	29.25	29.97

(c) Details of current and deferred income tax related to items recognized outside profit or loss for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>2022</u>	<u>2021</u>
Current tax:		
Capital changes in equity method	\ 38 \	\ 4 \
Subtotal	<u>38</u>	<u>4</u>
Deferred tax:		
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	(1,778)	(4,831)
Remeasurement element of net defined benefit liabilities	(21,431)	(14,810)
Subtotal	<u>(23,209)</u>	<u>(19,641)</u>
Total	\ <u>(23,171)</u> \	\ <u>(19,637)</u> \

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28. Income Tax Expense and Deferred Tax Asset (cont'd)

(d) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income or loss	Ending balance
Accumulated depreciation	22,966	6,814	-	29,780
Loss allowance	56,953	(4,982)	-	51,971
Financial assets measured at fair value through other comprehensive income or loss (profit of loss)	11,063	777	(1,778)	10,062
Accrued expenses	58,193	3,492	-	61,685
Defined benefit liabilities	31,945	(728)	(21,431)	9,786
Treasury shares	(9,411)	343	-	(9,068)
Investments in subsidiaries	(269,647)	(7,186)	-	(276,833)
Advanced depreciation provision	(10,004)	364	-	(9,640)
Others	12,393	(5,677)	-	6,716
Total	<u>(95,549)</u>	<u>(6,783)</u>	<u>(23,209)</u>	<u>(125,541)</u>

(in millions of Korean won)

	2021			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income or loss	Ending balance
Accumulated depreciation	18,516	4,450	-	22,966
Loss allowance	39,833	17,120	-	56,953
Financial assets measured at fair value through other comprehensive income or loss (profit of loss)	15,832	62	(4,831)	11,063
Accrued expenses	48,592	9,601	-	58,193
Defined benefit liabilities	45,511	1,244	(14,810)	31,945
Treasury shares	(9,411)	-	-	(9,411)
Investments in subsidiaries	(248,671)	(20,976)	-	(269,647)
Advanced depreciation provision	(10,004)	-	-	(10,004)
Others	20,177	(7,784)	-	12,393
Total	<u>(79,625)</u>	<u>3,717</u>	<u>(19,641)</u>	<u>(95,549)</u>

(e) Deductible temporary differences, unused tax losses, and unused tax credit not recognized as deferred tax assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022	December 31, 2021
Deductible temporary differences	564,867	536,248
Unused tax losses	151,456	205,955
Unused tax credit	304	304
Total	<u>716,627</u>	<u>742,507</u>

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28. Income Tax Expense and Deferred Tax Asset (cont'd)

(f) The expiry period for net operating losses not recognized as deferred tax assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Unused tax losses	Unused tax credits	Unused tax losses	Unused tax credits
Within 1 year	47,384	-	47,862	-
1 ~ 2 years	18,877	251	47,200	-
2 ~ 3 years	7,418	52	18,954	-
Over 3 years	77,777	1	91,345	304
Total	151,456	304	205,361	304

(g) The amount of temporary differences to be added but not recognized as deferred tax liabilities in relation to investments in subsidiaries and associates and equity investments in joint ventures is ₩1,047,256 million and ₩965,437 million as of December 31, 2022 and 2021, respectively.

29. Earnings Per Share

(a) The relationship between EPS and accounting profit or loss for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won, Korean won, and shares)

	2022	2021
Profit for the year from continuing operations attributable to owners of the Parent Company	1,024,375	1,029,613
Profit for the year from discontinued operation attributable to owners of the Parent Company	(8,590)	(52,354)
Total	1,015,785	977,259
Weighted average number of ordinary shares outstanding (in shares)	119,657,375	123,731,183
Basic and diluted EPS for continuing operations (in Korean won)	8,561	8,321
Basic and diluted EPS for discontinued operation (in Korean won)	(72)	(423)
Total	8,489	7,898

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29. Earnings Per Share (cont'd)

(b) The basis for calculating the weighted average number of ordinary shares outstanding for the years ended December 31, 2022 and 2021 are as follows

(in shares)

	Date	2022		
		Number of shares	Days (in days)	Weighted number of shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(17,312,574)	365	(6,319,089,510)
Acquisition of treasury shares	Nov. 4, etc. ~ Dec. 31	(3,700,000)	5~58	(117,730,000)
Total				<u>43,674,941,895</u>
Days in circulation (in days)			365	
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				119,657,375

(in shares)

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

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30. Related Parties

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

Type	Name of entity	Location	Percentage of ownership (%)	
			December 31, 2022	December 31, 2021
Associates	LitePharmTech Co., Ltd. ¹	Korea	12.53	12.88
	KORAMCO Banpo PFV Co., Ltd. ¹	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	19.47	19.47
	KOCREF 36 REIT ²	Korea	21.01	21.01
	KOCREF 41 REIT ³	Korea	26.47	-
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Kiwoom Milestone Private REIT No.16 ⁴	Korea	-	45.45
	Cheongna Medipolis PFV Co., Ltd. ⁵	Korea	56.74	56.74
	INNODIS Co., Ltd. ¹	Korea	19.64	19.60
	SJ BIO MED Co., Ltd. ¹	Korea	14.39	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	22.73	23.13
	Mirae Asset KT&G Investment Fund I ⁶	Korea	50.00	-
	Joint ventures	KORAMCO Europe Private REIT 3-2 Fund ⁷	Germany	51.35
Starfield Suwon Inc.		Korea	50.00	50.00
Others	KORAMCO Ocheon PFV Co., Ltd. ⁸	Korea	-	18.95
	KORAMCO Amsa PFV Co., Ltd. ⁹	Korea	-	17.84

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

²The Group has reclassified the ownership as investment in associates, as the Group obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of invested company during the year ended December 31, 2021.

³The Group has reclassified the ownership as investment in associates, as the Group obtained the ability to exercise significant influence over the invested company with the increase in its ownership percentage, following the disproportionate capital decrease of invested company during the year ended December 31, 2022.

⁴The Group has reclassified the ownership as investment in associates during the year ended December 31, 2021, as the Group is determined it has a significant influence over the invested company; this ownership was sold during the year ended December 31, 2022 and is therefore not included as a related party.

⁵The Group has newly established the entity through capital investment during the year ended December 31, 2021, and classified the ownership as investment in associates, as three-fourth of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁶The Group has acquired 50.00% of shares in Mirae Asset Investment Fund I during the year ended December 31, 2022 and classified the ownership as investment in associates.

⁷The Group has classified the ownership as investment in joint ventures, as the Board of Directors' unanimous consent is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

⁸The Group has reclassified the ownership as assets held for sale, as the Group has entered into a sales agreement during the year ended December 31, 2021, and as completion of sales to a third-party during the year ended December 31, 2022, it is not included from related parties.

⁹The Group has reclassified the ownership as assets held for sale, as the resolution for dissolution was reached at the shareholders' meeting during the year ended December 31, 2022, and as the ownership was liquidated during the year ended December 31, 2022, it is not included from related parties.

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30. Related Parties (cont'd)

(b) The Group conducts transactions with related parties, such as sales of goods and provision of services. Details of transactions with related parties for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	2022		2021	
		Sales and other income	Purchase and other expenses	Sales and other income	Purchase and other expenses
Associates	KOCREF 36 REIT	1,200	-	2,070	-
	KOCREF 41 REIT	1,646	-	-	-
	AndaStation Professional Investment Private REIT No.1	954	-	481	-
	Kiwoom Milestone Private REIT No.16	1,399	-	1,212	-
	INNODIS Co., Ltd.	-	722	-	2,454
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	1,298	-	1,260	-
	Starfield Suwon Inc.	-	68	615	811
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
	Total	6,497	790	5,656	3,265

(c) Details of account balances of receivables and payables with related companies as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Type	Name of entity	December 31, 2022		December 31, 2021	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No.1	481	-	481	-
	INNODIS Co., Ltd.	-	35	-	-
Joint ventures	Starfield Suwon Inc.	70	-	-	-
Others	KORAMCO Ocheon PFV Co., Ltd.	-	-	18	-
	Total	551	35	499	-

30. Related Parties (cont'd)

(d) Details of fund transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Type	Name of entity	2022		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	-
	Cheongna Medipolis PFV Co., Ltd.	-	-	17,022	-
	Kiwoom Milestone Private REIT No.16	-	30,603	-	-
	Mirae Asset KT&G Investment Fund I	5,000	-	-	-
	Starfield Suwon Inc.	-	-	45,000	-
	KORAMCO Ocheon PFV Co., Ltd. ¹	-	24,353	-	-
Others	KORAMCO Amsa PFV Co., Ltd. ²	-	1,749	-	-
	Total	34,489	68,984	79,786	-

¹The Group has reclassified the ownership as assets held for sale as the Group has entered into a sales agreement during the year ended December 31, 2021. Since the entity was completely sold to a third party during the year ended December 31, 2022, it is excluded from related parties.

²The Group has reclassified the ownership as assets held for sale as the resolution for dissolution was reached at the shareholders' meeting during the year ended December 31, 2022. Since the entity was fully liquidated during the year ended December 31, 2022, it is excluded from related parties.

(e) There are no payment guarantees provided between or among 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 5 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 contribution agreement for equity instruments of Cheongna medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of December 31, 2022, the outstanding balance of the contribution 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 approval of Incheon Free Economic Zone and all the shareholders

30. Related Parties (cont'd)

(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) As of December 31, 2022, the Group has entered into a capital call agreement in relation to KORAMCO Europe Private REIT 3-2 Fund. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

(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 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.

(k) As of December 31, 2022, The Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for PF loan of KORAMCO Banpo PFV Co., Ltd. (see Note 33).

(l) Key management personnel compensation for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Long (short)-term employee benefits	\ 19,631	\ 23,162
Retirement benefits	2,456	2,538
Total	\ <u>22,087</u>	\ <u>25,700</u>

31. 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 reduce, eliminate and avoid 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 year's.

(a) Market risk

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

① Currency risk

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

Details of the carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	1,866,741	87,990	1,806,296	23,084
EUR	1,686	43,407	545	3,027
Others	13,587	23,591	16,170	1,280
Total	1,882,014	154,988	1,823,011	27,391

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022		December 31, 2021	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	172,703	(172,703)	179,562	(179,562)

31. Risk Management and Fair Value of Financial Instruments (cont'd)

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, for which acquisitions and disposals are required to be approved by the Group's management.

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets measured at fair value through other comprehensive income or loss) as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	December 31, 2022		December 31, 2021	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	\ 3,313	\ (3,313)	\ 2,780	\ (2,780)

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 that the fair values or future cash flows of financial instruments may fluctuate due to the changes in market interest rate. The effect of interest rate change on fair values or future cash flows of financial liabilities is immaterial considering the volume of the variable interest rate liability as of December 31, 2022.

(b) Credit risk

The Group is exposed to credit risk that one of the contracting parties to the financial instrument may incur financial loss to the other party due to the failure to performing its obligations. In order to manage credit risk, the Group's management only transacts with parties over certain level of creditworthiness, and establishes and manages the credit enhancement policies and procedures for financial assets. The Group evaluates the creditworthiness rating of new transacting parties using the financial information disclosed upon entering the contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the 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 creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken depending on the reason for delay.

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31. Risk Management and Fair Value of Financial Instruments (cont'd)

Details of the carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalents (excluding cash on hand) ¹	1,062,549	532,725
Other financial assets	243,901	466,058
Financial assets measured at fair value through profit or loss ¹	1,051,441	1,683,359
Trade and other receivables	1,636,987	1,107,501
Long-term deposits	1,437,130	1,250,468
Derivative assets	23,069	580
Total	<u>5,455,077</u>	<u>5,040,691</u>

¹As of December 31, 2022, money market trust and others amounting to ₩337,906 million (2021: ₩413,159 million) included in cash equivalents are classified as financial assets measured at fair value through profit or loss.

(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.

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>					
	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Remaining maturity of contract</u>			
			<u>Less than 3 months</u>	<u>3 months ~ 1 year</u>	<u>1 year ~ 5 years</u>	<u>More than 5 years</u>
Short-term borrowings	72,629	76,974	6,689	70,285	-	-
Current portion of long-term borrowings	4,126	4,235	588	3,647	-	-
Trade and other payables	1,101,926	1,111,503	1,032,899	46,490	24,055	8,059
Lease liabilities	37,609	39,949	5,374	12,215	20,132	2,228
Long-term borrowings	78,808	81,595	385	973	80,237	-
Non-controlling interest liability	27,769	27,769	-	-	24,741	3,028
Total	<u>1,322,867</u>	<u>1,342,025</u>	<u>1,045,935</u>	<u>133,610</u>	<u>149,165</u>	<u>13,315</u>

<i>(in millions of Korean won)</i>	<u>December 31, 2021</u>					
	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Remaining maturity of contract</u>			
			<u>Less than 3 months</u>	<u>3 months ~ 1 year</u>	<u>1 year ~ 5 years</u>	<u>More than 5 years</u>
Short-term borrowings	75,433	75,679	7,068	68,611	-	-
Current portion of long-term borrowings	2,166	2,191	554	1,637	-	-
Trade and other payables	603,833	606,546	549,713	41,670	10,207	4,956
Derivative liabilities	908	908	908	-	-	-
Lease liabilities	36,558	38,267	5,075	12,778	16,492	3,922
Long-term borrowings	53,195	53,247	10	29	53,208	-
Non-controlling interest liability	18,317	18,317	-	-	15,318	2,999
Total	<u>790,410</u>	<u>795,155</u>	<u>563,328</u>	<u>124,725</u>	<u>95,225</u>	<u>11,877</u>

31. Risk Management and Fair Value of Financial Instruments (cont'd)

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

As of December 31, 2022, the Group provides joint-guarantees for middle payment loan provided to the buyer related to the real estate sales contract of Suwon Hwaseo Prugio (guarantee limit: ₩76,720 million, remaining contract maturity: 1 ~ 2 years) and has recognized a financial guarantee provision liability of ₩134 million (2021: ₩271 million) (see Notes 19.(f) and 33.(c)).

In addition, the Group provides contribution commitment for debt/equity instruments, Capital call agreement for overseas property fund and others. Maximum exposure of liquidity risk in relation to such agreements are equal to the agreed amount (see Note 33.(d)).

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

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Financial assets:		
Financial assets measured at fair value through profit or loss ¹	\ 1,051,441 \	1,683,359
Financial assets measured at fair value through other comprehensive income or loss	206,494	228,398
Derivative assets	23,069	580
Financial assets measured at amortized cost		
Cash and cash equivalents ¹	1,063,112	533,412
Other financial assets	243,901	466,058
Trade and other receivables	1,636,987	1,107,501
Long-term deposits	1,437,130	1,250,468
Subtotal	<u>4,381,130</u>	<u>3,357,439</u>
Total financial assets	<u>\ 5,662,134 \</u>	<u>5,269,776</u>
Financial liabilities:		
Derivative liabilities	\ - \	908
Financial liabilities measured at amortized cost		
Short-term borrowings	72,629	75,433
Current portion of long-term borrowings	4,126	2,166
Long-term borrowings	78,808	53,195
Trade and other payables	1,101,926	603,833
Lease liabilities	37,609	36,558
Liabilities for non-controlling interests	27,769	18,317
Subtotal	<u>1,322,867</u>	<u>789,502</u>
Total financial liabilities	<u>\ 1,322,867 \</u>	<u>790,410</u>

¹As of December 31, 2022, money market trust amounting to ₩337,906 million (2021: ₩413,159 million) included in cash equivalents is classified as financial assets measured at fair value through profit or loss.

31. Risk Management and Fair Value of Financial Instruments (cont'd)

(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 technique as follows:

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

Details of the fair value of financial instruments measured by each hierarchy as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	December 31, 2022			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss ¹	1,051,441	-	693,490	357,951
Financial assets measured at fair value through other comprehensive income or loss	206,494	196,989	-	9,505
Derivative assets	23,069	-	23,069	-
Total financial assets	<u>1,281,004</u>	<u>196,989</u>	<u>716,559</u>	<u>367,456</u>

¹As of December 31, 2022, money market trust amounting to ₩337,906 million included in cash equivalents is classified as 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
Financial assets measured at fair value through profit or loss ¹	1,683,359	-	1,395,963	287,396
Financial assets measured at fair value through other comprehensive income or loss	228,398	196,312	-	32,086
Derivative assets	580	-	580	-
Total financial assets	<u>1,912,337</u>	<u>196,312</u>	<u>1,396,543</u>	<u>319,482</u>
Derivative liabilities	908	-	908	-

¹As of December 31, 2021, money market trust amounting to ₩413,159 million included cash equivalents is classified as financial assets measured at fair value through profit or loss.

There is no movement between the levels of fair value hierarchy during the years ended December 31, 2022 and 2021.

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31. Risk Management and Fair Value of Financial Instruments (cont'd)

As of December 31, 2022 and 2021, the fair value of investment trust equity security classified as financial assets measured at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and discounted cash flow method and was classified as Level 3 fair value based on the inputs used in the valuation technique.

The changes in Level 3 fair value for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	319,482	282,226
Acquisition	85,224	84,208
Disposal	(18,847)	(37,241)
Transfers	(28,300)	(30,100)
Changes in fair value	9,897	20,389
Ending balance	367,456	319,482

(f) Details of net gain or loss by each financial instrument category for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022					
	Financial assets measured at fair value through profit or loss	Financial assets measured at 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	-	-	-	36,784	-	36,784
Dividend income	16,439	10,841	-	-	-	27,280
Gain or loss on valuation	24,881	-	(31,535)	-	-	(6,654)
Gain or loss on disposal	-	(10,300)	-	-	-	(10,300)
Gain on adjustment on leases	-	-	-	-	294	294
Interest expense	-	-	-	-	(34,772)	(34,772)
Impairment reversal (loss)	-	-	-	(5,419)	-	(5,419)
Total	41,320	541	(31,535)	31,365	(34,478)	7,213
Other comprehensive income or (loss) before tax:						
Net change in fair value	-	7,596	-	-	-	7,596
Total	-	7,596	-	-	-	7,596

(in millions of Korean won)

	2021					
	Financial assets measured at fair value through profit or loss	Financial assets measured at 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 ¹	-	-	-	13,856	-	13,856
Dividend income	12,838	11,305	-	-	-	24,143
Gain or loss on valuation	16,183	-	(21,755)	-	-	(5,572)
Gain on adjustment on leases	-	-	-	-	486	486
Interest expense	-	-	-	-	(17,844)	(17,844)
Impairment reversal (loss)	-	-	-	6,389	-	6,389
Gain on adjustment on debt	-	-	-	-	10,366	10,366
Total	29,021	11,305	(21,755)	20,245	(6,992)	31,824
Other comprehensive income or (loss) before tax:						
Net change in fair value	-	16,354	-	-	-	16,354
Total	-	16,354	-	-	-	16,354

¹Includes Interest revenue classified as discontinued profit or loss ₩2 million.

32. Capital Management

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

The Group manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous fiscal year. Details of the Group's capital structure as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total borrowings	\ 155,563	\ 130,794
Less: Cash and cash equivalents	(1,401,018)	(946,571)
Less: Current other financial assets	(201,075)	(457,057)
Less: Current financial instruments measured at fair value through profit or loss	(393,106)	(965,384)
Net liabilities(assets)	\ <u>(1,839,636)</u>	\ <u>(2,238,218)</u>
Total equity	\ <u>9,358,580</u>	\ <u>9,208,862</u>

33. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2022, the Group has 22 of pending litigations where the Group is the position of defendant and the litigation amounts amount to ₩77,035 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of December 31, 2022.

(b) Commitments with financial institutions

The Group's major arrangements with financial institutions as of December 31, 2022, are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank and one other	USD	110,300	87,456
Derivatives trading ¹	KB Kookmin Bank and four others	USD	334,500	37,081
Trade receivables factoring agreement	Hana Bank	KRW	5,000	293
Others	Korea Development Bank and five others	KRW	585,367	157,286
	Hana Bank Bahrain branch	USD	4,500	4,500

¹Derivatives consist of foreign exchange forward contracts and are held for trading as of December 31, 2022.

As of December 31, 2022, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 118,650 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Group as of December 31, 2022 are as follows:

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	590,456	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	37,055	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	673	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves

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33. Contingent Liabilities and Commitments (cont'd)

As of December 31, 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.

Details of payment guarantees provided by the Group to other parties as of December 31, 2022 are as follows:

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	76,720	52,530	Loan guarantee for the intermediate payment of off-plan sales construction
Korea Special Sales Financial Cooperative Association Registered Agency	Korea Special Sales Financial Cooperative Association	882	-	Payment guarantee for deductibles and others of Donghae branch

The Group provides payment guarantees to financial institutions in accordance with the consumer financial agreement when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 16).

Details of assets pledged as collaterals as of December 31, 2022 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	24,753	1,626	15,600	KB Kookmin Bank	Long term borrowings
	49,707	37,000	44,400	Korea Development Bank	Current portion of long-term and long term borrowings
	16,977	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	30,417	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment property	475,603	25,982	28,010	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	81,125	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
	1,553	-	1,553	Korea Housing & Urban Guarantee Corporation	Collateral for unsecured site
	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, NH Bank	PF Loan Agreement by KORAMCO Banpo PFV Co., Ltd. ¹
Total	696,348	216,205	189,776		

¹ Equity holdings of all investors in KORAMCO Banpo PFV Co., Ltd. are pledged as collaterals for a PF loan amounting to ₩90,000 million.

33. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2022, 2 notes and 2 checks that have extinguished the cause debt are lost, and the Group is planning on pleading for their nullifications.

Details of restricted financial assets as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other financial assets	Establishment of a pledge for property	10,310	10,310
	Collateral for unsecured site	1,553	1,553
	Establishment of a pledge for leasehold deposits	597	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Security deposits for checking accounts, etc.	417	55
Cash and cash equivalents	Establishment of a pledge to savings	1,680	1,680
Total		<u>114,557</u>	<u>114,195</u>

(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 Group 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 ₩1,437,130 million in long-term deposits for MSA Escrow Fund as of December 31, 2022 (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 December 31, 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 ₩112,930 million and ₩27,725 million, respectively (2021: ₩103,841 million and ₩20,564 million, respectively).

As of December 31, 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 for the year ended December 31, 2018. The disposal of the shares is limited for 5 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.

33. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2022, the Group is in a capital call agreement in relations to the Group's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

The Group has entered into a capital contribution agreement in relations to the debt instruments of Smilegate-Newdeal fund, and etc., with the ceiling of ₩50,010 million. As of December 31, 2022, the outstanding contribution amount is ₩13,174 million, and the detailed timeline for contribution is yet to be determined.

The Group has entered into an optional contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of December 31, 2022, the outstanding contribution amount is ₩83,978 million, and the contribution will be made until the related land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

As of December 31, 2022, The Group has entered into an asset management consignment contract with SDAMC LTD, which containing commitment to management, operation, and disposal of entrusted asset that is under construction by the Group and SDAMC LTD. Under the contract, the Group has paid ₩197 million of monthly commission for the period from the approval of the announcement of the sale to the completion date. The Group has also entered into a fund management consignment contract with Kyobo Asset Trust Co.,Ltd.

The Group has entered into a land-sales contract in 2018 and completed the payment of remaining balance in 2020. The land should be used for constructing a building in accordance with the business plan submitted to the authority of Gwacheon-si and a certain part of the building should be used for designated purposes stated in the business plan for 10 years from the date of registration of preservation of ownership.

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 December 31, 2022, the Group is being provided with commitments to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (Suwon Hwaseo Prugio Briciel, etc.) proceed by the Group.

33. Contingent Liabilities and Commitments (cont'd)

The Group has obligated to return infrastructure such as roads and neighborhood parks to Suwon City for free related to infrastructure construction of Suwon Hwaseo Prugio Briciel.

During the year ended December 31, 2022, the Group has reached agreement with Bando Engineering & Construction Co.,Ltd to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, and the completion date of the construction shall be October 20, 2023 under the agreement. For promoting the construction, the Group also promised to pay ₩10 billion in advance to Bando Engineering & Construction Co.,Ltd until October 20, 2023.

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

As of December 31, 2022, the Parent Company and KT&G USA Corporation received a notification from the US Department of Justice (DOJ) to submit a comprehensive document on the regulatory compliance status of tobacco products sold in the US, for which the investigation is underway. The ultimate outcome of the investigation and its impact are unpredictable as of December 31, 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 Group is engaged in manufacturing and selling tobacco in Russia. As of December 31, 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 December 31, 2022.

The Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalization of the global economy. Global Minimum Tax (Pillar Two) were released and they apply to Multinational Enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements. National Assembly of South Korea passed into law new Global Minimum Tax rules to align with the OECD BEPS Pillar Two in December 2022. The regulation will be included in the Adjustment of International Taxes Act and will be effective for fiscal years beginning on or after January 1, 2024. However, the Enforcement Decrees that provide further detail on the application of the legislation is not yet finalized as of December 31, 2022. In South Korea, Pillar Two legislation is not yet considered substantively enacted as of December 31, 2022 for financial reporting purposes. The Group therefore has not recognized any tax effect arising from the Global Minimum Tax in its consolidated financial statements as of December 31, 2022 and for the year then ended.

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34. Cash Flows

(a) Cash generated from operations for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Profit for the year	1,005,327	971,759
Operating profit from continuing operations	1,013,917	1,024,113
Operating loss from discontinued operation	(8,590)	(52,354)
Adjustments:		
Employee welfare	1,423	17,811
Retirement benefits	55,802	58,286
Loss on valuation or obsolescence of inventories	8,670	39,930
Depreciation	203,162	202,666
Amortization	22,293	14,494
Impairment loss (reversal of impairment loss) on trade and other receivables	5,419	(6,389)
Loss on foreign currency translation	69,643	33,421
Loss on valuation of derivatives	65,277	23,123
Loss on disposal of property, plant and equipment	1,627	2,657
Loss on impairment of property, plant and equipment	2,316	1,075
Loss on disposal of intangible assets	438	213
Loss on impairment of intangible assets	410	18,944
Loss on disposal of investment properties	731	128
Loss on impairment of investment properties	21,928	-
Loss on impairment of right-of-use assets	-	6,798
Loss on disposal of right-of-use assets	-	1
Loss on disposal of assets held for sale	1,218	305
Loss on impairment of assets held for sale	43	-
Other expenses, etc.	24,795	10,175
Finance costs	87,540	32,151
Income tax expense	415,602	415,801
Gain on foreign currency translation	(119,766)	(129,849)
Gain on valuation of derivatives	(33,742)	(1,368)
Gain on disposal of property, plant and equipment	(3,900)	(2,043)
Reversal of impairment loss on intangible assets	(1)	-
Reversal of impairment loss on property, plant and equipment	-	(168)
Gain on disposal of investment property	(1,901)	(30)
Reversal of impairment loss on investment property	-	(1,745)
Gain on disposal of assets held for sale	(34,081)	-
Gain on disposal of investments in associates and joint ventures	(192)	(634)
Other income, etc.	(8,476)	(7,418)
Finance income	(131,413)	(78,754)
Decrease of investments in associates and joint ventures due to share of net gain/loss	(29,370)	(10,911)

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34. Cash Flows (cont'd)

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Changes in working capital:		
Decrease (increase) in trade and other receivables	(548,904)	252,000
Decrease in derivatives	(54,931)	(8,775)
Decrease (increase) in inventories	(98,362)	66,079
Decrease (increase) in accrued tobacco excise and other taxes	38,811	(50,073)
Increase in advance payments	(60,649)	(29,781)
Increase in prepaid expenses	(8,667)	(13,800)
Increase in trade and other payables	544,836	48,197
Increase (decrease) in advance receipts	3,114	(85,805)
Increase (decrease) in tobacco excise and other taxes payable	(42,321)	122,384
Increase (decrease) in provision for site restoration	72	(8,801)
Decrease in net defined benefit liabilities	(93,530)	(69,443)
Cash generated from operations	\ <u>1,310,291</u>	\ <u>1,832,611</u>

(b) Material transactions without cash inflow and outflow for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Reclassification of property, plant and equipment to investment properties	\ 39,968	\ 36,703
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	137,797	154,122
Increase or decrease in other payable related to the acquisition of property, plant and equipment	50,274	(5,700)
Reclassification of investment properties to inventories	80,807	-

34. Cash Flows (cont'd)

(c) Changes in liabilities due to financing activities for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	-	(575,904)	595,912	20,008
Short-term borrowings (including current portion of long-term borrowings)	77,599	(9,903)	9,059	76,755
Long-term borrowings	53,195	42,717	(17,104)	78,808
Lease liabilities	36,558	(21,134)	22,185	37,609
Total	<u>167,352</u>	<u>(564,224)</u>	<u>610,052</u>	<u>213,180</u>

(in millions of Korean won)

	2021			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	-	(595,584)	595,584	-
Short-term borrowings (including current portion of long-term borrowings)	54,815	7,659	15,125	77,599
Long-term borrowings	53,492	12,198	(12,495)	53,195
Lease liabilities	45,709	(24,555)	15,404	36,558
Total	<u>154,016</u>	<u>(600,282)</u>	<u>613,618</u>	<u>167,352</u>

(d) The Group has presented the inflows and outflows from items that have large total amounts and short maturities due to frequent transactions, such as cash and cash equivalents, financial assets measured at fair value through profit or loss, at the net value of increase or decrease.

KT&G Corporation and Its Subsidiaries
Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2022 and 2021



35. Non-Controlling Interests

(a) For subsidiaries in which the Group hold a material portion of non-controlling interests, details of their profit or loss and net profit and accumulated non-controlling interests allocated to the Group's non-controlling interests for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022				
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	49,872	(10,442)	3,303	42,733
Cosmococ Co., Ltd.	1.44	204	(16)	15	203
Total		50,076	(10,458)	3,318	42,936

(in millions of Korean won)

	2021				
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	54,412	(5,508)	968	49,872
Cosmococ Co., Ltd.	1.44	309	8	(113)	204
Total		54,721	(5,500)	855	50,076

(b) The condensed cash flows information for subsidiaries in which the Group hold a material portion of non-controlling interests for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	
	Yungjin Pharm. Co., Ltd.	Cosmococ Co., Ltd.
Cash flows from operating activities	(11,610)	2,542
Cash flows from investing activities	(13,352)	(1,140)
Cash flows from financing activities	25,180	(2,395)
Net increase in cash and cash equivalents	218	(993)
Cash and cash equivalents at the beginning of the period	465	3,711
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	(5)
Cash and cash equivalents at the end of the period	683	2,713

(in millions of Korean won)

	2021	
	Yungjin Pharm. Co., Ltd.	Cosmococ Co., Ltd.
Cash flows from operating activities	8,368	(2,705)
Cash flows from investing activities	(11,638)	1,745
Cash flows from financing activities	3,307	1,065
Net increase in cash and cash equivalents	37	105
Cash and cash equivalents at the beginning of the period	428	3,600
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	6
Cash and cash equivalents at the end of the period	465	3,711

35. Non-Controlling Interests (cont'd)

(c) The Group has presented non-controlling interests of 49% and 7.5% in Gwacheon Sangsang PFV and Mastern No.144 PFV Co. Ltd., its subsidiaries, as non-controlling interest liabilities in its consolidated financial statements, and gains and losses related thereto are recognized as interest expense, since the survival period of such subsidiaries are limited and the Group cannot exercise its control over the period as well.

36. Discontinued Operations

As of December 14, 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.

(a) Profit or loss from discontinued operations

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Revenue ¹	\ 3,831 \	\ 258,239
Expenses ²	(12,421)	(310,233)
Loss from discontinued operations, before tax	(8,590)	(51,994)
Income tax expense	-	(360)
Loss from discontinued operations, after tax	(8,590)	(52,354)
Exchange differences on translating foreign operations	(1,528)	565
Total comprehensive Loss from discontinued operations	\ (10,118) \	\ (51,789)

¹The revenue includes finance income and other income.

²The expenses include finance costs and other expenses.

Profit or loss from discontinued operations for the years ended December 31, 2022 and 2021 are entirely attributed to the owners of the Parent Company.

(b) Cash flows from discontinued operations

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities	\ (15,724) \	\ 4,107
Cash flows from investing activities	260	1,305
Cash flows from financing activities	(1,116)	(1,823)
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	2,546	2,480
Total cash flow	\ (14,034) \	\ 6,069

37. Events After the Reporting Period

The Parent Company completed paid-in capital increase with considerations paid to existing shareholders by offering new shares worth at ₩30 billion in its subsidiary, SangSang Stay Inc., on January 17, 2023.

The Parent Company signed a funding affirmation letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., and Cosmococ Co., Ltd. in February 2023, promising to provide operating funds and other administrative supports. In addition, in the same period, the Parent Company lent ₩4.5 billion to improve the cash flow of Youngjin Pharm. Co., Ltd., a subsidiary, and signed a funding affirmation letter for its other subsidiary, Renzoluc Pte., Ltd. to support the repayment.

The Parent Company lent USD 44,502 thousand to its subsidiary, PT Trisakti Purwosari Makur in February 2023 for construction of new factory and infrastructure in Indonesia according to the resolution of its Board of Directors made on January 18, 2023.

The Parent Company newly established KT&G Global Kazakhstan LLP and completed an initial investment worth at USD 15,000 thousand in January 2023.

After the Parent Company newly established KT&G Kazakhstan LLP, its Board of Directors made resolution on January 18, 2023 to invest additional contributions worth at USD 53,664 thousand through three times of investment in January, June, and September 2023. Accordingly, the Parent Company invested an additional contribution worth at USD 26,833 thousand in KT&G Kazakhstan LLP in February 2023.

The Parent Company has a plan to conduct paid-in capital increase with considerations paid to existing shareholders by offering new shares worth at USD 19,724 thousand in its subsidiary, KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. in February 2023.

PT Trisakti Purwosari Makmur, the subsidiary of the Parent Company, has merged with PT KT&G Indonesia, the other subsidiary of the Parent Company, on January 1, 2023 as the merger date for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia.

Daejeon Regional Tax Office has been conducting a tax investigation against the Parent Company for the taxation period from 2018 to 2020 since January 26, 2023. Since it is uncertain when and to which extent the outflow of resources will be required as a result of the tax investigation as of December 31, 2022, the Parent Company cannot reliably estimate the impact of the tax investigation on the consolidated financial statements.

The Group has entered into a long-term contract with Philip Morris Products S.A. (the "PMI") to sell the Group's smoke-free products for 15 years in the global market excluding Korea, with a five-year renewal requirement for some subcontracts. Under the contract, PMI has the right to market, distribute, and sell the Group's products overseas during the contract period, and sets a minimum warranty quantity of the sale of consumables such as sticks for five waves of three-year period during the contractual period.



37. Events After the Reporting Period (cont'd)

The Group recognized ~~₩~~₩14,113 million of penalties and overdue interests as legal proceedings provision for a litigation against the Group as a defendant (lawsuit value: ₩14,296 million) since the court sentenced partial defeat of the Group in the first trial on February 6, 2023. The Group fully deposited ₩9,000 million of guarantee insurance and ₩1,000 million of cash on February 23, 2023, and the second trial of the aforementioned litigation is in the process as the Group filed an appeal.