



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

Interim Consolidated Financial Statements

For the three-month periods ended March 31, 2023 and 2022

With the independent auditor's review report

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**Report on review of interim consolidated financial statements**  
(English Translation of a Report Originally Issued in Korean)

**The Shareholders and Board of Directors  
KT&G Corporation**

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of March 31, 2023, and the related interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for the three-month periods ended March 31, 2023 and 2022 and a summary of material accounting policy information and other explanatory information.

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

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

**Auditor's responsibility**

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

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

**Conclusion**

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

### Other matters

We have audited the consolidated statement of financial position as of December 31, 2022, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended (not presented herein) in accordance with KSA, and our report dated March 6, 2023 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2022, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.

May 11, 2023



This review report is effective as of May 11, 2023, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modifications to this review report

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

## **Interim Consolidated Financial Statements**

**For the three-month periods ended March 31, 2023 and 2022**

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

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**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**As of March 31, 2023 (Unaudited) and December 31, 2022**



(in Korean won)

	Notes		March 31, 2023		December 31, 2022
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	22,23	₩	1,333,383,013,131	₩	1,401,018,438,794
Current other financial assets	22,23		165,773,437,547		201,074,895,450
Current financial assets measured at fair value through profit or loss	22		295,665,132,401		393,106,179,920
Trade and other receivables	5,16,21,22		1,694,289,200,795		1,528,511,308,801
Derivative assets	22,23		1,017,966,761		23,069,310,564
Inventories	6		2,553,520,885,301		2,575,842,017,001
Refund assets and others			1,269,795,021		983,881,594
Accrued tobacco excise and other taxes			329,209,773,164		276,181,191,834
Advance payments	23		95,534,599,540		51,089,949,308
Prepaid expenses			86,629,634,891		58,707,728,734
<b>Total current assets</b>			<b>6,556,293,438,552</b>		<b>6,509,584,902,000</b>
<b>Non-current assets</b>					
Long-term other financial assets	22,23		46,275,032,104		42,826,342,939
Long-term deposits in MSA Escrow Fund	22,23		1,476,068,191,950		1,437,130,373,415
Long-term financial assets measured at fair value through profit or loss	22,23		326,052,479,427		320,429,121,314
Long-term trade and other receivables	5,22		119,265,142,767		108,476,071,963
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23		212,561,036,466		206,493,540,726
Investments in associates and joint ventures	4,7,21,23		272,886,762,969		274,534,172,041
Property, plant and equipment	8,23		1,846,842,387,229		1,837,040,709,535
Intangible assets	9		173,398,093,791		167,851,437,108
Investment properties	10,23		1,067,267,059,036		1,071,463,087,867
Right-of-use assets	11		43,435,994,984		40,243,871,545
Long-term advance payments	23		112,883,820,427		113,065,628,589
Long-term prepaid expenses			6,960,033,033		7,130,744,259
Deferred income tax assets	20		43,062,800,534		55,757,878,436
Net defined benefit assets	14		98,440,733,170		109,687,902,060
<b>Total non-current assets</b>			<b>5,845,399,567,887</b>		<b>5,792,130,881,797</b>
<b>Total assets</b>		₩	<b>12,401,693,006,439</b>	₩	<b>12,301,715,783,797</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term borrowings	13,22,23	₩	70,558,367,918	₩	72,629,448,270
Current portion of long-term borrowings	13,22,23		3,750,000,000		4,125,980,000
Trade and other payables	21,22,23		1,699,660,475,596		1,505,796,123,059
Current lease liabilities	22		17,556,619,008		16,558,862,968
Derivative liabilities	22,23		7,623,642,403		-
Advance receipts	16		27,826,470,699		21,492,888,395
Current refund liabilities and provisions	15,23		19,925,240,298		21,562,642,092
Current income tax liabilities	20		226,423,900,207		218,730,043,068
Tobacco excise and other taxes payables			761,358,683,180		666,419,286,276
<b>Total current liabilities</b>			<b>2,834,683,399,309</b>		<b>2,527,315,274,128</b>
<b>Non-current liabilities</b>					
Long-term borrowings	13,22,23		88,001,368,747		78,807,990,962
Long-term trade and other payables	22,23		52,882,549,352		52,895,766,396
Long-term lease liabilities	22		21,780,410,431		21,049,801,579
Long-term advance receipts	16		3,054,727,279		2,567,527,585
Net defined benefit liabilities	14		34,017,538,038		32,477,623,143
Long-term refund liabilities and provisions	15,23		19,149,085,973		18,953,749,083
Deferred income tax liabilities	20		208,117,624,088		181,299,216,741
Non-controlling interests liabilities	22		11,050,604,161		27,768,802,788
<b>Total non-current liabilities</b>			<b>438,053,908,069</b>		<b>415,820,478,277</b>
<b>Total liabilities</b>		₩	<b>3,272,737,307,378</b>	₩	<b>2,943,135,752,405</b>

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Financial Position, Continued**  
As of March 31, 2023 (Unaudited) and December 31, 2022



(in Korean won)

	<u>Notes</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
<b>Equity</b>			
Share capital	₩	954,959,485,000	₩ 954,959,485,000
Other capital surplus		4,497,785,722	4,497,785,722
Treasury shares		(1,236,932,914,379)	(1,236,932,914,379)
Gain on sale of treasury shares		528,894,053,906	528,894,053,906
Reserves		7,240,884,197,526	6,812,285,552,594
Retained earnings		1,532,095,825,192	2,251,940,435,833
<b>Equity attributable to owners of the Parent Company</b>		<u>9,024,398,432,967</u>	<u>9,315,644,398,676</u>
<b>Non-controlling interest</b>		<u>104,557,266,094</u>	<u>42,935,632,716</u>
<b>Total equity</b>	₩	<u>9,128,955,699,061</u>	₩ <u>9,358,580,031,392</u>
<b>Total liabilities and equity</b>	₩	<u>12,401,693,006,439</u>	₩ <u>12,301,715,783,797</u>

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

**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Comprehensive Income**  
For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(in Korean won)

	Notes	March 31, 2023	March 31, 2022
<b>Continuing operations</b>			
<b>Sales</b>	4,16	₩ 1,395,670,180,002	₩ 1,402,567,495,582
<b>Cost of sales</b>		(687,376,636,645)	(673,728,209,589)
<b>Gross profit</b>		708,293,543,357	728,839,285,993
Selling, general and administrative expenses	17,21	(391,747,022,409)	(395,832,311,909)
<b>Operating profit</b>	4	316,546,520,948	333,006,974,084
Other income	18,22	96,071,623,521	74,433,843,559
Other expenses	18,21,22	(33,780,124,002)	(27,061,817,889)
Finance income	19,22	49,217,658,900	32,730,145,250
Finance costs	19,22	(31,798,084,177)	(30,922,155,171)
Share of net profit (loss) of associates and joint ventures	7	(1,757,528,160)	13,965,701,364
Loss arising from net monetary assets		(1,856,329,744)	-
<b>Profit before income tax</b>		392,643,737,286	396,152,691,197
Income tax expense	20	(115,789,066,977)	(128,403,399,227)
<b>Profit from continuing operations</b>		276,854,670,309	267,749,291,970
<b>Discontinued operations</b>			
Loss from discontinued operations	25	(2,626,687,140)	(4,373,645,191)
<b>Profit for the period</b>	₩	274,227,983,169	₩ 263,375,646,779
<b>Other comprehensive income (loss) for the period after income tax</b>			
Items that will not be reclassified to profit or loss in subsequent periods			
Re-measurements of net defined benefit liabilities	₩	(1,304,421,818)	₩ (676,519,947)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	22	4,587,111,828	16,020,591,382
Capital changes in equity method	7	3,752,832	(614,037)
Items that will be reclassified to profit or loss in subsequent periods		16,403,748,389	1,373,484,825
Exchange differences on translating foreign operations		19,690,191,231	16,716,942,223
<b>Total comprehensive income for the period</b>	₩	293,918,174,400	₩ 280,092,589,002
<b>Profit for the period is attributable to:</b>			
Owners of the Parent Company			
Profit from continuing operations	₩	273,128,536,404	₩ 268,440,931,509
Loss from discontinued operations	25	(2,626,687,140)	(4,373,645,191)
Profit attributable to owners of the Parent Company		270,501,849,264	264,067,286,318
Non-controlling interests			
Profit (loss) from continuing operations		3,726,133,905	(691,639,539)
Loss from discontinued operations	25	-	-
Profit attributable to non-controlling interests		3,726,133,905	(691,639,539)
<b>Total</b>	₩	274,227,983,169	₩ 263,375,646,779
<b>Total comprehensive income (loss) for the period attributable to:</b>			
Owners of the Parent Company			
Profit from continuing operations	₩	293,836,091,979	₩ 285,709,749,800
Loss from discontinued operations	25	(3,682,442,688)	(4,918,172,710)
Total comprehensive income attributable to owners of the Parent Company		290,153,649,291	280,791,577,090
Non-controlling interests			
Gain (loss) from continuing operations		3,764,525,109	(698,988,088)
Loss from discontinued operations	25	-	-
Total comprehensive Income (loss) attributable to non-controlling interests		3,764,525,109	(698,988,088)
<b>Total</b>	₩	293,918,174,400	₩ 280,092,589,002
<b>Earnings per share</b>			
Basic and diluted earnings per share			
From continuing operations	₩	2,349	₩ 2,237
From discontinued operations		(23)	(36)
	₩	2,326	₩ 2,201

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



**KT&G Corporation and Its Subsidiaries**  
**Interim Consolidated Statements of Changes in Equity**  
For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(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
<b>Balance as of January 1, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,490,161,242,572	₩ 2,060,255,463,296	₩ 9,158,786,200,927	₩ 50,075,952,125	₩ 9,208,862,153,052
<b>Total comprehensive income (loss) for the period</b>									
Profit (loss) for the period	-	-	-	-	-	264,067,286,318	264,067,286,318	(691,639,539)	263,375,646,779
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(670,404,131)	(670,404,131)	(6,115,816)	(676,519,947)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	16,020,591,382	-	16,020,591,382	-	16,020,591,382
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,330,221,000	(8,330,221,000)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	1,374,717,558	-	1,374,717,558	(1,232,733)	1,373,484,825
Capital changes in equity method	-	-	-	-	(614,037)	-	(614,037)	-	(614,037)
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	25,724,915,903	(9,000,625,131)	16,724,290,772	(7,348,549)	16,716,942,223
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	25,724,915,903	255,066,661,187	280,791,577,090	(698,988,088)	280,092,589,002
Dividends	-	-	-	-	-	(575,903,630,400)	(575,903,630,400)	-	(575,903,630,400)
Transfer to other reserve	-	-	-	-	301,212,920,479	(301,212,920,479)	-	-	-
	-	-	-	-	301,212,920,479	(877,116,550,879)	(575,903,630,400)	-	(575,903,630,400)
<b>Balance as of March 31, 2022</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (879,981,829,569)	₩ 528,894,053,906	₩ 6,817,099,078,954	₩ 1,438,205,573,604	₩ 8,863,674,147,617	₩ 49,376,964,037	₩ 8,913,051,111,654
<b>Balance as of January 1, 2023</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (1,236,932,914,379)	₩ 528,894,053,906	₩ 6,812,285,552,594	₩ 2,251,940,435,833	₩ 9,315,644,398,676	₩ 42,935,632,716	₩ 9,358,580,031,392
<b>Total comprehensive income (loss) for the period</b>									
Profit for the period	-	-	-	-	-	270,501,849,264	270,501,849,264	3,726,133,905	274,227,983,169
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(1,345,281,508)	(1,345,281,508)	40,859,690	(1,304,421,818)
Gain on valuation from financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	4,587,111,828	-	4,587,111,828	-	4,587,111,828
Exchange differences on translating foreign operations	-	-	-	-	16,406,216,875	-	16,406,216,875	(2,468,486)	16,403,748,389
Capital changes in equity method	-	-	-	-	3,752,832	-	3,752,832	-	3,752,832
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	20,997,081,535	(1,345,281,508)	19,651,800,027	38,391,204	19,690,191,231
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	20,997,081,535	269,156,567,756	290,153,649,291	3,764,525,109	293,918,174,400
Dividends	-	-	-	-	-	(581,399,615,000)	(581,399,615,000)	-	(581,399,615,000)
Transfer to other reserves	-	-	-	-	407,601,563,397	(407,601,563,397)	-	-	-
Change in non-controlling interest, etc.	-	-	-	-	-	-	-	57,857,108,269	57,857,108,269
	-	-	-	-	407,601,563,397	(989,001,178,397)	(581,399,615,000)	57,857,108,269	(523,542,506,731)
<b>Balance as of March 31, 2023</b>	₩ 954,959,485,000	₩ 4,497,785,722	₩ (1,236,932,914,379)	₩ 528,894,053,906	₩ 7,240,884,197,526	₩ 1,532,095,825,192	₩ 9,024,398,432,967	₩ 104,557,266,094	₩ 9,128,955,699,061

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

# KT&G Corporation and Its Subsidiaries

## Interim Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2023 (Unaudited) and 2022 (Unaudited)



(in Korean won)	Notes	March 31, 2023	March 31, 2022
<b>Net cash flows provided by (used in) operating activities</b>	₩	(150,420,585,896)	₩ 202,848,888,441
Cash generated from operations	24	(61,522,311,015)	292,624,285,872
Income taxes paid		(88,898,274,881)	(89,775,397,431)
<b>Net cash flows provided by (used in) investing activities</b>		59,126,690,278	(261,608,040,901)
Interest received		21,766,809,801	3,323,123,062
Dividends received		4,046,581,038	5,005,054,796
Decrease in other financial assets		93,340,300,000	222,045,470,698
Decrease in current financial assets measured at fair value through profit or loss		108,748,394,763	-
Decrease in long-term financial assets measured at fair value through profit or loss		1,186,824,059	-
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		-	7,200,000,000
Disposal of property, plant and equipment		2,400,344,813	672,849,676
Disposal of investment properties		3,350,400,000	-
Disposal of assets held for sale		-	48,309,728,412
Disposal of investments in associates and joint ventures		-	12,278,711,553
Collection of loans		5,112,335,177	4,888,578,573
Collection of guarantee deposits		82,054,825	99,079,108
Increase in other financial assets		(61,933,008,500)	(311,000,047,849)
Increase in current financial assets measured at fair value through profit or loss		(95,367,455)	(104,642,379,670)
Increase in long-term financial assets measured at fair value through profit or loss		(150,000,000)	(3,662,228,000)
Increase in long-term deposits in MSA Escrow Fund		(473,717,724)	(76,388,257,551)
Acquisition of property, plant and equipment		(95,790,815,056)	(22,470,571,108)
Acquisition of intangible assets		(14,149,705,230)	(4,582,189,275)
Acquisition of investment properties		(2,811,475,807)	(4,209,337,342)
Acquisition of right-of-use assets		(185,873,300)	(338,279,938)
Acquisition of investments in associates and joint ventures		-	(29,488,895,600)
Increase in loans		(5,273,251,603)	(7,419,325,358)
Increase in guarantee deposits		(44,139,523)	(1,229,125,088)
<b>Net cash flows provided by (used in) financing activities</b>		(3,768,123,447)	9,791,985,244
Interest paid		(3,786,742,771)	(788,391,203)
Repayment of lease liabilities		(5,902,098,145)	(4,975,070,151)
Repayment of borrowings		(291,260,482,531)	(30,165,693,632)
Proceeds in borrowings		297,181,200,000	45,721,140,230
<b>Net decrease in cash and cash equivalents</b>		(95,062,019,065)	(48,967,167,216)
<b>Cash and cash equivalents at the beginning of the period</b>		1,401,018,438,794	946,570,845,404
Changes in the scope of consolidation		21,034,589,556	-
Effect of exchange rate fluctuation on cash and cash equivalents		6,392,003,846	(1,007,949,841)
<b>Cash and cash equivalents at the end of the period</b>	₩	1,333,383,013,131	₩ 896,595,728,347

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

## **1. Reporting Entity**

### **1.1 Overview of the Parent Company**

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2023, the Parent Company has 3 manufacturing plants, including the Shintanjin plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

The Parent Company was established as a government-owned enterprise pursuant to the Korea Monopoly Corporation Act on April 1, 1987. On April 1, 1989, the Parent Company changed its name to Korea Tobacco and Ginseng Corporation pursuant to the Korea Tobacco and Ginseng Corporation Act. In order to secure financing and promote efficient management of the monopoly business of red ginseng and tobacco, the Parent Company was excluded from application of Framework Act on the management of Government-Invested Institutions and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Improvement of Managerial Structure and Privatization of Public Enterprises, proclaimed on August 28, 1997 and enforced on October 1, 1997.

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

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

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued March 31, 2023 and 2022 (Unaudited)



### 1.2 Consolidated Subsidiaries

Consolidated subsidiaries as of March 31, 2023 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) <sup>1</sup>	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	March 31, 2023	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	March 31, 2023	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing tobacco materials	100.00	March 31, 2023	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	March 31, 2023	Turkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	March 31, 2023	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	March 31, 2023	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	March 31, 2023	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	March 31, 2023	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	March 31, 2023	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	March 31, 2023	Singapore
	SangSang Stay Inc.	Hotel	100.00	March 31, 2023	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	March 31, 2023	Russia
	Gwacheon Sangsang PFV. Inc.	Developing and selling real estate	51.00	March 31, 2023	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	March 31, 2023	Taiwan
	Mastern No.144 PFV Co., Ltd.	Developing and selling real estate	92.50	March 31, 2023	Korea
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	March 31, 2023	Kazakhstan
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	March 31, 2023	Kazakhstan
	DNC Deogeun Co., Ltd. <sup>2</sup>	Developing and selling real estate	38.25	March 31, 2023	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	March 31, 2023	Korea
	KGC Life&Gin Co., Ltd.	Selling ginseng, etc.	100.00	March 31, 2023	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	March 31, 2023	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	March 31, 2023	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	March 31, 2023	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	March 31, 2023	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	March 31, 2023	Japan
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	March 31, 2023	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur <sup>3</sup>	Manufacturing and selling tobaccos	99.99	March 31, 2023	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	March 31, 2023	Indonesia

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

<sup>2</sup>The Parent Company held preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the three-month period ended March 31, 2023, and as of March 31, the percentage of voting shares held by the Parent Company is 51.00%.

<sup>3</sup>A portion of ownership in PT Trisakti Purwosari Makmur is held by the Parent Company.

## **1.2 Consolidated Subsidiaries (Continued)**

During the three-month period ended March 31, 2023, the Parent Company acquired 75,344,496 shares (₩25,623 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. and 6,000,000 shares (₩30,000 million) of SangSang Stay Co., Ltd. through paid-in capital increase.

During the three-month period ended March 31, 2023, the Parent Company established KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP for ₩18,510 million and ₩16,188 million, respectively, through capital investment.

During the three-month period ended March 31, 2023, the Parent Company acquired 3,825 shares (₩35,315 million) of preferred stocks with voting rights of DNC Deogeun Co., Ltd. through equity purchase.

During the three-month period ended March 31, 2023, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, as of the merger date of January 1, 2023 for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia, merged PT KT&G Indonesia, a subsidiary of the Parent Company.

## **2. Material Accounting Policies**

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

The interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS") 1034 *Interim Financial Reporting*. The accompanying interim consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

The Group 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, 2023, and these amendments and interpretations do not have a material impact on the interim consolidated financial statements.

#### ***(a) KIFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates***

The amendments to KIFRS 1008 clarify the distinction between changes in accounting estimates, changes in accounting policies and corrections of accounting errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

**2. Material Accounting Policies (Continued)***(b) KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to KIFRS 1001 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. KIFRS 1001 requires disclosure of the Group's significant accounting policies. The amendments replace the 'significant' accounting policies with 'material' accounting policies and add a description of material accounting policy information. The amendments allow the Group to provide more useful accounting policy information when making decisions about accounting policy disclosures.

The effective date of the amendments to KIFRS 1001 *Presentation of Financial Statements-Classification of Liabilities as Current or Non-current* has been deferred by one year from January 1, 2023 to January 1, 2024. The Group does not have a history of early adoption of these amendments, and the amendments do not have a material impact on the interim financial statements.

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

The amendments to KIFRS 1012 *Income Taxes* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

**(3) Material Accounting Policies**

Material accounting policies and method of computation used in the preparation of the interim consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2022, except for the changes due to the application of amendment and enactments of standards described in Note 2.(2) and the one described below.

*(a) Income Tax Expense*

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

### 3. Material Accounting Estimates and Assumptions

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

Material accounting estimates and assumptions applied in the preparation of these interim consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2022, except for the estimates used to determine the income tax expense.

### 4. Operating Segment

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

Operating Segments	Principal operations
Tobacco	Manufacturing and selling tobaccos
Ginseng	Manufacturing and selling red ginseng, etc.
Real estate <sup>1</sup>	Selling and renting real estate
Others <sup>1</sup>	Manufacturing and selling pharmaceuticals, cosmetics and others

<sup>1</sup>The Group reclassified SangSang Stay Co., Ltd. from Others to Real estate and restated the comparative information.

(b) Details of segment information on sales and operating profit for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

		March 31, 2023						
		Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩	911,105	₩ 426,058	₩ 96,762	₩ 71,579	₩ 1,505,504	₩ (109,834)	₩ 1,395,670
Intersegment sales		(53,489)	(41,961)	(12,902)	(1,482)	(109,834)	109,834	-
External sales		857,616	384,097	83,860	70,097	1,395,670	-	1,395,670
Operating profit (loss) <sup>2</sup>		236,645	55,041	24,190	671	316,547	-	316,547
Depreciation and amortization		39,147	12,217	7,467	2,715	61,546	(2,422)	59,124

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

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

(in millions of Korean won)

		March 31, 2022						
		Tobacco <sup>1</sup>	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩	890,350	₩ 434,547	₩ 129,571	₩ 69,691	₩ 1,524,159	₩ (121,592)	₩ 1,402,567
Intersegment sales		(62,537)	(37,514)	(18,589)	(2,952)	(121,592)	121,592	-
External sales		827,813	397,033	110,982	66,739	1,402,567	-	1,402,567
Operating profit (loss) <sup>2</sup>		259,778	32,247	42,090	(1,108)	333,007	-	333,007
Depreciation and amortization		39,516	14,151	1,021	2,307	56,995	(2,213)	54,782

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

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

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 4. Operating Segment (Continued)

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

(in millions of Korean won)

			March 31, 2023		March 31, 2022
Revenue recognized at a point in time:					
Tobacco	Wholesale and retail	₩	853,244	₩	792,335
	Direct sales		4,372		35,479
Ginseng	Wholesale and retail		201,848		196,730
	Direct sales		182,249		200,103
Others	Wholesale and retail		69,475		65,589
	Direct sales		622		1,120
	Subtotal		1,311,810		1,291,356
Revenue recognized over time:					
Real estate	Sales and rental		83,860		111,211
	Total	₩	1,395,670	₩	1,402,567

(d) Segment information on assets and liabilities as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	March 31, 2023						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 6,513,379	₩ 2,152,761	₩ 1,620,651	₩ 231,852	₩ 10,518,643	₩ (2,479,611)	₩ 8,039,032
Investments in associates and joint ventures	-	-	263,544	9,343	272,887	-	272,887
Subtotal	₩ 6,513,379	₩ 2,152,761	₩ 1,884,195	₩ 241,195	₩ 10,791,530	₩ (2,479,611)	₩ 8,311,919
Common assets							4,089,774
Total assets							₩ 12,401,693
Acquisition of non-current assets	₩ 54,516	₩ 17,350	₩ 1,365	₩ 3,621	₩ 76,852	₩ (8,541)	₩ 68,311
Liabilities:							
Segment liabilities	₩ 2,124,251	₩ 238,629	₩ 96,524	₩ 93,770	₩ 2,553,174	₩ (550,699)	₩ 2,002,475
Common liabilities							₩ 1,270,262
Total liabilities							₩ 3,272,737

(in millions of Korean won)

	December 31, 2022						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 6,213,616	₩ 2,233,505	₩ 1,465,572	₩ 229,346	₩ 10,142,039	₩ (2,373,907)	₩ 7,768,132
Investments in associates and joint ventures	-	-	265,084	9,450	274,534	-	274,534
Subtotal	₩ 6,213,616	₩ 2,233,505	₩ 1,730,656	₩ 238,796	₩ 10,416,573	₩ (2,373,907)	₩ 8,042,666
Common assets							4,259,050
Total assets							₩ 12,301,716
Acquisition of non-current assets	₩ 299,725	₩ 32,984	₩ 9,670	₩ 8,718	₩ 351,097	₩ 44,156	₩ 395,253
Liabilities:							
Segment liabilities	₩ 2,505,124	₩ 247,442	₩ 63,318	₩ 94,963	₩ 2,910,847	₩ (583,870)	₩ 2,326,977
Common liabilities							₩ 616,159
Total liabilities							₩ 2,943,136



# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
March 31, 2023 and 2022 (Unaudited)



## 4. Operating Segment (Continued)

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

(e) Regional information by customer's location for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023			March 31, 2022		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 977,165	₩ 418,505	₩ 1,395,670	₩ 980,417	₩ 422,150	₩ 1,402,567
Non-current assets	3,005,627	125,317	3,130,944	2,942,554	100,393	3,042,947

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

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

## 5. Trade and Other Receivables

(a) Details of trade and other receivables as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,517,401	₩ -	₩ 1,366,523	₩ -
Loans	19,987	54,315	19,180	52,887
Other receivables	107,337	2,290	94,904	1,087
Guarantee deposits	42,527	62,574	37,549	54,466
Accrued income	7,037	86	10,355	36
Total	₩ 1,694,289	₩ 119,265	₩ 1,528,511	₩ 108,476

**5. Trade and Other Receivables (Continued)**

(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 March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,771,634	₩ 119,346	₩ 1,608,031	₩ 108,556
Allowances:				
Trade receivables	(76,509)	-	(78,666)	-
Other receivables	(836)	(81)	(854)	(80)
Subtotal	(77,345)	(81)	(79,520)	(80)
Net trade and other receivables	₩ 1,694,289	₩ 119,265	₩ 1,528,511	₩ 108,476

(c) Changes in allowance for doubtful accounts for trade and other receivables for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023	December 31, 2022
Beginning balance	₩ 79,600	₩ 79,007
Impairment loss (reversal of impairment loss) <sup>1</sup>	(2,604)	138
Write off	-	(37)
Net exchange difference	430	1,833
Ending balance	₩ 77,426	₩ 80,941

<sup>1</sup>₩214 million of impairment loss classified as loss discontinued operations are included for the three-month period ended March 31, 2022.

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

**6. Inventories**

(a) Details of inventories as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	March 31, 2023			December 31, 2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 39,179	₩ (3,387)	₩ 35,792	₩ 42,708	₩ (3,037)	₩ 39,671
Finished goods	459,288	(35,204)	424,084	460,150	(35,719)	424,431
Half-finished goods and work in progress	958,277	(3,901)	954,376	1,023,783	(3,596)	1,020,187
Raw materials	895,589	(8,365)	887,224	858,261	(8,763)	849,498
Supplies	58,612	-	58,612	54,325	-	54,325
By-products	5,238	-	5,238	5,160	-	5,160
Buildings under construction <sup>1</sup>	75,563	-	75,563	61,597	-	61,597
Completed buildings	1,490	-	1,490	1,490	-	1,490
Sites for construction of real estate <sup>1</sup>	81,034	-	81,034	66,622	-	66,622
Goods in transit	30,108	-	30,108	52,988	(127)	52,861
Total	₩ 2,604,378	₩ (50,857)	₩ 2,553,521	₩ 2,627,084	₩ (51,242)	₩ 2,575,842

<sup>1</sup>Include ₩714 million reclassified from property, plant and equipment and ₩80,807 million reclassified from properties during the year ended December 31, 2022.

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023	March 31, 2022
Cost of sales:		
Loss (reversal) on valuation of inventories	₩ (1,389)	₩ (3,167)
Loss on obsolescence of inventories	3,176	2,880
Other expense:		
Loss on obsolescence of inventories	23	11
Total	₩ 1,810	₩ (276)

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
March 31, 2023 and 2022 (Unaudited)



## 7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for the three-month periods ended March 30, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023		March 31, 2022
Beginning balance	₩	274,534	₩	242,992
Acquisition		-		29,489
Disposal		-		(12,279)
Shares of net profit or loss		(1,757)		13,966
Dividends		-		(793)
Changes in Equity		5		(1)
Reclassification <sup>1</sup>		105		17,014
Ending balance	₩	272,887	₩	290,388

<sup>1</sup>For the three-month period ended March 31, 2022, KOCREF 41 REIT was reclassified into investment in associates from financial assets at fair value through other comprehensive income, and KORAMCO Amsa PFV Co., Ltd. was reclassified into assets held for sale from investment in associates (see Notes 12, 21).

## 8. Property, Plant and Equipment

Changes in property, plant and equipment for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023		March 31, 2022
Beginning balance	₩	1,837,041	₩	1,741,042
Acquisition		43,613		25,829
Disposal/Impairment		(606)		(116)
Depreciation		(40,006)		(39,973)
Reclassification and others		6,800		40,408
Ending balance	₩	1,846,842	₩	1,767,190

## 9. Intangible Assets

Changes in intangible assets for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023		March 31, 2022
Beginning balance	₩	167,851	₩	145,719
Acquisition		11,582		12,599
Disposal/Impairment		(104)		(401)
Amortization		(6,960)		(3,815)
Reclassification and others		1,029		510
Ending balance	₩	173,398	₩	154,612

## 10. Investment Properties

Changes in investment properties for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Beginning balance	₩	1,071,463	₩	1,150,980
Acquisition		2,652		4,807
Disposal/Impairment		(787)		-
Depreciation		(5,832)		(4,975)
Reclassification and others		(229)		(65,257)
Ending balance	₩	<u>1,067,267</u>	₩	<u>1,085,555</u>

## 11. Right-of-use Assets

Changes in right-of-use assets for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Beginning balance	₩	40,244	₩	36,445
Acquisition		10,465		6,666
Disposal		(1,715)		(1,506)
Depreciation		(6,326)		(6,019)
Reclassification and others		768		5
Ending balance	₩	<u>43,436</u>	₩	<u>35,591</u>

## 12. Assets Held for Sale

Changes in assets held for sale for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Beginning balance	₩	-	₩	20,124
Disposal		-		(18,341)
Reclassification <sup>1</sup>		-		23,632
Ending balance	₩	<u>-</u>	₩	<u>25,415</u>

<sup>1</sup>Includes ₩22,647 million reclassified from investment properties, and ₩985 million reclassified from investment in associates for the three-month period ended March 31, 2022.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 13. Borrowings

(a) Details of short-term borrowings as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)	Lender	Annual interest rate (%)	March 31, 2023	December 31, 2022
Borrowings	Hana Bank	FTP+0.994~1.2	₩ -	₩ 7,000
		Bank Debenture (6 months)+1.62	3,000	3,000
		Benchmark Interest Rate +1.75	7,855	7,805
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	5,848	5,686
	KB Kookmin Bank	Benchmark Interest Rate+1.75	39,274	39,025
	Shinhan Bank	Bank Debenture (6 months)+1.13	10,000	10,000
	NH Nonghyup Bank	3.87	-	19
		5.07	4,581	-
	Subtotal		70,558	72,535
	NH Nonghyup Bank	-	-	75
Consumer credit agreements <sup>1</sup>	Hana Card	-	-	19
	Subtotal		-	94
	Total		₩ 70,558	₩ 72,629

<sup>1</sup>The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings. No interest expense incurs on payment guarantees.

(b) Details of current portion of long-term borrowings and long-term borrowings as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)	March 31, 2023	December 31, 2022
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2024.06.10~2027.06.20	-	₩ 51,751	₩ 51,308
Borrowings	KB Kookmin Bank	2023.09.11	MOR(6 months) +1.03	-	825
			MOR(6 months) +1.58	-	801
		2025.03.07	MOR(1 year) +1.67	10,000	-
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66	10,000	10,000
		2024.12.01	Industrial Financial Debenture (6 months)+1.44	20,000	20,000
	Total			₩ 91,751	₩ 82,934
Consolidated statements of financial position:					
Current				3,750	4,126
Non-current				88,001	78,808
	Total			₩ 91,751	₩ 82,934

<sup>1</sup>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 23.(c) of interim consolidated financial statements, the Group provides collaterals for the above borrowings.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 14. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Defined benefit plan:				
Current service cost	₩	10,976	₩	12,933
Net interest on net defined benefit liabilities (assets)		(1,067)		276
Past service cost and loss on settlement		28		-
Subtotal		<u>9,937</u>		<u>13,209</u>
Defined contribution plan:				
Contributions recognized as expense		3,515		2,112
Other long-term employee benefits:				
Current service cost, etc.		1,336		1,423
Termination benefits:				
Voluntary retirements, etc.		485		2,214
Total	₩	<u>15,273</u>	₩	<u>18,958</u>

(b) Details of net defined benefit liabilities (assets) as of March 31, 2023 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>December 31, 2022</b>
Present value of defined benefit obligations	₩	526,103	₩	520,980
Fair value of plan assets		(590,526)		(598,190)
Total	₩	<u>(64,423)</u>	₩	<u>(77,210)</u>

**15. Refund Liabilities and Provisions**

(a) Details of refund liabilities and provisions as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

	March 31, 2023		December 31, 2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,574	₩ -	₩ 4,172	₩ -
Refund liabilities	13,953	3,947	14,141	4,168
Provision for site restoration	1,489	809	1,764	537
Provision for financial guarantee	106	-	-	134
Provision for greenhouse gases	119	-	194	-
Provision for others	684	14,393	1,292	14,115
Total	₩ 19,925	₩ 19,149	₩ 21,563	₩ 18,954

(b) Changes in refund liabilities and provisions for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 427	₩ (1,025)	₩ 3,574
Refund liabilities	18,309	1,117	(1,526)	17,900
Provision for site restoration	2,301	27	(30)	2,298
Provision for financial guarantee	134	-	(28)	106
Provision for greenhouse gases	194	-	(75)	119
Provision for others	15,407	281	(611)	15,077
Total	₩ 40,517	₩ 1,852	₩ (3,295)	₩ 39,074

(in millions of Korean won)

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



## 16. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sales contracts for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)		March 31, 2023				
					Total sales value	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>1</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	88.14	W	803,056 W	750,352 W	661,352 W	34,661 W	298,953
ePyeonghansesang Daejeon Station Centum Vista	December 2022	June 2026	5.79		226,951	45,475	2,632	2,107	2,101
Gwacheon Sangsang Xi tower B Goyang	January 2021	May 2025	93.88		239,568	239,568	219,350	13,021	128,037
Hyangdongjigu Jisiksaneop center <sup>2</sup>	March 2021	June 2023	75.42		541,142	540,080	407,330	9,961	185,833
Total				W	1,810,717 W	1,575,475 W	1,290,664 W	59,750 W	614,924

<sup>1</sup>Excludes the cumulative costs for common infrastructure, amounting to ₩104,205 million.

<sup>2</sup>Sales revenue for the three-month period ended March 31, 2023 excludes sales revenue of DNC Deogeun Co., Ltd. prior to acquiring control of the company.

(in millions of Korean won)

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

<sup>1</sup>Excludes sales revenue of ₩4,203 million of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of March 31, 2022.

<sup>2</sup>Excludes the cumulative costs for common infrastructure, amounting to ₩60,324 million.

**16. Real Estate Pre-sales Contracts (Continued)**

(b) Details of receivables and payables for ongoing real estate pre-sales contracts as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

Construction project	March 31, 2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots	Advanced receipts for sale in lots
Suwon Hwaseo Prugio Briciel	₩ 661,352	₩ 449,383	₩ 213,519	₩ 1,550
ePyeonghansang Daejeon Station	2,632	4,760	-	2,128
Centum Vista				
Gwacheon Sangsang Xi tower B	219,350	114,228	105,122	-
Goyang Hyangdongjigu	407,330	305,616	101,714	-
Jisiksaneop center				
Total	₩ 1,290,664	₩ 873,987	₩ 420,355	₩ 3,678

(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
ePyeonghansang Daejeon Station	525	1,770	-	1,245
Centum Vista				
Gwacheon Sangsang Xi tower B	206,329	115,868	90,461	-
Total	₩ 833,545	₩ 493,416	₩ 342,922	₩ 2,793

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the three-month period ended March 31, 2023. Estimated total contract revenue and total contract costs of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until March 31, 2023, and subject to change in the future.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 17. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses<sup>1</sup> for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023		March 31, 2022
Salaries	₩	126,445	₩	118,900
Retirement and termination benefits		9,048		11,702
Employee welfare		16,973		18,193
Travel expenses		4,992		2,734
Communication cost		1,559		1,473
Utilities		4,435		3,335
Taxes and dues		3,858		2,864
Supplies		2,285		1,309
Rent		4,827		4,803
Depreciation		14,650		15,520
Amortization		6,818		3,758
Repairs and maintenance		1,049		919
Vehicles		1,705		1,700
Insurance		988		966
Commissions		115,921		112,395
Freight and custody		16,365		17,246
Conferences		1,331		664
Advertising		52,394		71,303
Education and training		1,922		1,115
Prizes and rewards		417		292
Cooperation		206		396
Research and development		8,529		8,562
Impairment loss (reversal of impairment loss) on trade receivables		(2,582)		200
Total	₩	394,135	₩	400,349

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩2,388 million and ₩4,516 million for the three-month periods ended March 31, 2023 and 2022, respectively.

### 18. Other Income and Expenses

(a) Details of other income<sup>1</sup> for the three-month periods ended March 31, 2022 and 2022 are as follows:

<i>(in millions of Korean won)</i>		March 31, 2023		March 31, 2022
Gain on foreign currency transaction	₩	9,405	₩	7,077
Gain on foreign currency translation		75,366		40,957
Gain on valuation of derivatives		3,805		675
Reversal of impairment loss on other receivables		21		232
Gain on disposal of property, plant and equipment		1,234		13
Gain on disposal of investment properties		2,622		-
Gain on lease contract adjustments		65		62
Gain on disposal of assets held for sale		-		22,729
Miscellaneous income		3,798		3,381
Total	₩	96,316	₩	75,126

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩244 million and ₩692 million for the three-month periods ended March 31, 2023 and 2022, respectively.

**18. Other Income and Expenses (Continued)**

(b) Details of other expenses<sup>1</sup> for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Loss on foreign currency transaction	₩	9,840	₩	3,574
Loss on foreign currency translation		10,075		12,391
Loss on valuation of derivatives		9,398		5,760
Loss on impairment of other receivables		-		170
Loss on disposal of property, plant and equipment		176		80
Loss on impairment of property, plant and equipment		14		-
Loss on disposal of intangible assets		41		368
Loss on impairment of intangible assets		63		33
Loss on disposal of investment properties		59		-
Loss on disposal of assets held for sale		-		1,217
Donations		918		1,379
Loss on lease contract adjustments		3		3
Miscellaneous loss		3,676		2,637
<b>Total</b>	₩	<b>34,263</b>	₩	<b>27,612</b>

<sup>1</sup>Includes the profit or loss from discontinued operations, amounting to ₩483 million and ₩550 million for the three-month periods ended March 31, 2023 and 2022, respectively.

**19. Finance Income and Costs**

Details of finance income and costs for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>		<b>March 31, 2023</b>		<b>March 31, 2022</b>
Finance income:				
Interest income <sup>1</sup>	₩	16,003	₩	4,520
Dividend income		5,295		8,617
Gain on valuation of financial assets measured at fair value through profit or loss		27,920		19,593
<b>Total finance income</b>	₩	<b>49,218</b>	₩	<b>32,730</b>
Finance costs:				
Interest expense	₩	21,751	₩	8,875
Loss on valuation of financial assets measured at fair value through profit or loss		10,047		11,747
Other financial expense		-		10,300
<b>Total finance cost</b>	₩	<b>31,798</b>	₩	<b>30,922</b>
<b>Net finance income</b>	₩	<b>17,420</b>	₩	<b>1,808</b>

<sup>1</sup>Interest income stated above is generated from financial instruments measured at amortized cost.

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

Income tax expense is recognized based on the best estimate of weighted average annual effective income tax rate expected for the full financial year. The average effective tax rates for the three-month periods ended March 31, 2023 and 2022, are 29.69% and 32.77%, respectively.

# KT&G Corporation and Its Subsidiaries

Notes to the Interim Consolidated Financial Statements, Continued  
March 31, 2023 and 2022 (Unaudited)



## 21. Related Parties

(a) Details of the Group's related parties as of March 31, 2023 and December 31, 2022 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			March 31, 2023	December 31, 2022
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	19.47	19.47
	KOCREF 36 REIT	Korea	21.01	21.01
	KOCREF 41 REIT <sup>2</sup>	Korea	26.47	26.47
	AndaStation Professional Investment Private REIT No.1	Korea	21.43	21.43
	Cheongna Medipolis PFV Co., Ltd. <sup>3</sup>	Korea	56.74	56.74
	INNODIS Co., Ltd. <sup>1</sup>	Korea	19.64	19.64
	SJ BIO MED Co., Ltd. <sup>1</sup>	Korea	14.39	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	22.73
	Mirae Asset KT&G Investment Fund I <sup>4</sup>	Korea	50.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	-
	KORAMCO Europe Private REIT 3-2 Fund <sup>5</sup>	Germany	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00

<sup>1</sup>The Group has classified the ownership as investment in associates, notwithstanding its ownership percentage of less than 20%, as the Group 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.

<sup>2</sup>The 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.

<sup>3</sup>The 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.

<sup>4</sup>The Group acquired 50.00% of Mirae Asset KT&G Investment Fund I during the year ended December 31, 2022, and the Group classified the shares as investments in associates.

<sup>5</sup>The Group has classified the ownership as investment in joint ventures, as the Board of Director's unanimous consent is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 21. Related Parties (Continued)

(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 three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2023		March 31, 2022	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	Kiwoom Milestone Private REIT No.16	₩ -	₩ -	₩ 793	₩ -
	INNODIS Co., Ltd.	-	49	-	434
Joint ventures	Starfield Suwon Inc.	-	-	-	68
	Total	₩ -	₩ 49	₩ 793	₩ 502

(c) Details of account balances of receivables and payables with related companies as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2023		March 31, 2022	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No.1	₩ -	₩ -	₩ 481	₩ -
	INNODIS Co., Ltd.	-	-	-	35
Joint ventures	Starfield Suwon Inc.	-	-	70	-
	Total	₩ -	₩ -	₩ 551	₩ 35

(d) Details of fund transactions with related parties for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2023		March 31, 2022	
		Equity investment	Equity recovery	Equity investment	Equity recovery
Associates	KOCREF 41 REIT	₩ -	₩ -	₩ 29,489	₩ 12,279
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>	-	-	-	24,353
	Total	₩ -	₩ -	₩ 29,489	₩ 36,632

<sup>1</sup>The Group excluded the entity from related party as the entity was sold to the third-party in the three-month period ended March 31, 2022.

(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. and 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.

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## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 21. Related Parties (Continued)

(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 March 31, 2023, the outstanding contribution amount is ₩83,978 million, and the contribution will be made until the relevant land purchase and sale agreement's payment date. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

(i) As of March 31, 2023, 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 March 31, 2023, the Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for PF loan of KORAMCO Banpo PFV Co., Ltd. (Note 23 (c)).

(l) Key management personnel compensation for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023		March 31, 2022	
Short-term and long-term employee benefits	₩	5,131	₩	5,222
Retirement benefits		616		592
Total	₩	5,747	₩	5,814

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

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

**(a) Market risk**

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

**① Currency risk**

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

**② Price risk**

The Group is exposed to other price risks related to fluctuations of fair values and future cash flows of assets measured at fair value through other comprehensive income or loss, that may be caused by the changes in market prices of listed stocks the Group invests in. The Group's management regularly measures the risk that the fair values or future cash flows may fluctuate due to the changes in market prices for the listed stocks the 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.



**22. Risk Management and Fair Value of Financial Instruments (Continued)****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 March 31, 2023.

**(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 of performing its obligations. In order to manage such 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 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 in accordance with the reasons for delay.

As of March 31, 2023 and December 31, 2022, the carrying amount of financial assets is the maximum exposure to credit risk.

**(c) Liquidity risk**

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

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## Notes to the Interim Consolidated Financial Statements, Continued March 31, 2023 and 2022 (Unaudited)



### 22. Risk Management and Fair Value of Financial Instruments (Continued)

(d) Details of the carrying amounts of each category of financial instrument as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)		March 31, 2023	December 31, 2022
Financial assets:			
Financial assets fair value through profit or loss <sup>1</sup>	₩	1,036,626	₩ 1,051,441
Financial assets fair value through other comprehensive income or loss		212,561	206,494
Derivative assets		1,018	23,069
Financial assets measured at amortized cost			
Cash and cash equivalents <sup>1</sup>		918,474	1,063,112
Other financial assets		212,048	243,901
Trade and other receivables		1,813,554	1,636,987
Long-term deposits		1,476,068	1,437,130
Subtotal		4,420,144	4,381,130
Total financial assets	₩	5,670,349	₩ 5,662,134
Financial liabilities:			
Derivative liabilities	₩	7,624	₩ -
Financial liabilities measured at amortized cost			
Short-term borrowings		70,558	72,629
Current portion of long-term borrowings		3,750	4,126
Long-term borrowings		88,001	78,808
Trade and other payables		1,355,963	1,101,926
Lease liabilities		39,337	37,609
Liabilities for non-controlling interests		11,051	27,769
Subtotal		1,568,660	1,322,867
Total financial liabilities	₩	1,576,284	₩ 1,322,867

<sup>1</sup>As of March 31, 2023, money market trust amounting to ₩414,909 million (December 31, 2022: ₩337,906 million) included in cash equivalents is classified as financial assets measured at fair value through profit or loss.

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

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

**22. Risk Management and Fair Value of Financial Instruments (Continued)**

Details of the fair value of financial instruments measured by each fair value hierarchy as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

		March 31, 2023			
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss <sup>1</sup>	₩ 1,036,626	₩ -	₩ 678,528	₩ 358,098	
Fair value through other comprehensive income or loss	212,561	203,056	-	9,505	
Derivative assets	1,018	-	1,018	-	
Total financial assets	₩ 1,250,205	₩ 203,056	₩ 679,546	₩ 367,603	
Derivative liabilities	₩ 7,624	₩ -	₩ 7,624	₩ -	

<sup>1</sup>As of March 31, 2023, money market trust amounting to ₩414,909 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, 2022			
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	
Fair value through profit or loss <sup>1</sup>	₩ 1,051,441	₩ -	₩ 693,490	₩ 357,951	
Fair value through other comprehensive income or loss	206,494	196,989	-	9,505	
Derivative assets	23,069	-	23,069	-	
Total financial assets	₩ 1,281,004	₩ 196,989	₩ 716,559	₩ 367,456	

<sup>1</sup>As 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.

There is no movement between the levels of fair value hierarchy during the three-month periods ended March 31, 2023 and 2022.

As of March 31, 2023 and December 31, 2022, 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 the 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 three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	March 31, 2023	March 31, 2022
Beginning balance	₩ 367,456	₩ 319,482
Acquisition	245	3,662
Disposal	(1,607)	-
Transfers	-	(28,300)
Changes in fair value	1,509	2,353
Ending balance	₩ 367,603	₩ 297,197

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued March 31, 2023 and 2022 (Unaudited)



### 22. Risk Management and Fair Value of Financial Instruments (Continued)

(f) Details of net gain or loss by each financial instruments category for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)

		March 31, 2023					
	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	W -	W -	W -	16,003	W -	W -	16,003
Dividend income	1,325	3,970	-	-	-	-	5,295
Gain or loss on valuation	17,872	-	(5,594)	-	-	-	12,278
Interest expense	-	-	-	-	(21,751)	-	(21,751)
Reversal of impairment loss (Impairment loss)	-	-	-	2,604	-	-	2,604
Gain or loss on lease contract adjustments	-	-	-	-	62	-	62
Total	W 19,197	W 3,970	W (5,594)	W 18,607	W (21,689)	W -	14,491
Other comprehensive income(loss) before tax:							
Net change in fair value	W -	W 6,068	W -	W -	W -	W -	6,068

(in millions of Korean won)

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

### 23. Contingent Liabilities and Commitments

#### (a) Litigation cases

As of March 31, 2023, the Group has 19 pending litigations where the Group is in the position of the defendant, and the litigation amounts amount to ₩75,404 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 March 31, 2023.

## 23. Contingent Liabilities and Commitments (Continued)

### (b) Commitments with financial institutions

The Group's major arrangements with financial institutions as of March 31, 2023 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	78,584
Derivatives trading <sup>1</sup>	KB Kookmin Bank and four others	USD	334,500	12,578
Trade receivables factoring agreement	Hana Bank	KRW	5,000	284
Others	Korea Development Bank and five others	KRW	633,726	163,207
	Hana Bank Bahrain branch	USD	4,500	4,500

<sup>1</sup>Derivatives consist of foreign exchange forward contracts, and are held for trading as of March 31, 2023.

As of March 31, 2023, the Group has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 119,350 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 March 31, 2023 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	57,839	License guarantee, etc.
Liberty Mutual and two others	USD	397	Payment guarantees on license bond
Hana Bank	KRW	100	Refund debt payment guarantee
Nevis	USD	500	Trade receivable payment guarantee
Garanti Bank	TRY	3,000	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco

As of March 31, 2023, 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.

### 23. Contingent Liabilities and Commitments (Continued)

Details of payment guarantees provided by the Group to other parties as of March 31, 2023 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	Limit amount	Execution amount	Details of guarantee
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	₩ 76,720 ₩	65,593	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
Buyer of Goyang Hyangdongjigu Jisiksaneop center	KB Kookmin Bank and two others	360,000	284,220	Loan guarantee for the intermediate payment of off-plan sales construction

The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreements when collecting retail trade receivables, and recognizes payments received from financial institutions on behalf of the retail customers as short-term borrowings (see Note 13).

Details of assets pledged as collaterals as of March 31, 2023 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 25,130 ₩ 49,081	₩ 10,000 ₩ 30,000	₩ 15,600 ₩ 44,400	KB Kookmin Bank Korea Development Bank	Long term borrowings Current portion of long-term and long term borrowings
	16,906	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	30,166	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment properties	472,107	23,171	26,466	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	81,228	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
	500	-	110	Hana Bank	Innergin Mall payment guarantee
Pledge of Profit Rights	-	62,800	49,000	New tiger No.9 (1st), Happy Asset No.5 (2nd)	Pledge of Profit Rights
Investments in Associates	2,704	90,000	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	₩ 690,282 ₩	₩ 277,568 ₩	₩ 237,342 ₩		

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

**23. Contingent Liabilities and Commitments (Continued)**

Details of restricted financial assets as of March 31, 2023 and December 31, 2022 are as follows:

(in millions of Korean won)

			<b>March 31, 2023</b>		<b>December 31, 2022</b>
Other financial assets	Establishment of a pledge for property development	₩	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.		432		417
Cash and cash equivalents	Establishment of a pledge to savings		1,681		1,680
	Total	₩	<u>114,573</u>	₩	<u>114,557</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 inflict 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 ₩1,476,068 million in long-term deposits for MSA Escrow Fund as of March 31, 2023 (as of December 31, 2022: ₩1,437,130 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 March 31, 2023, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩112,796 million and ₩43,734 million, respectively (as of December 31, 2022: ₩112,930 million and ₩27,725 million, respectively).

As of March 31, 2023, 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. Corporation after having established the joint venture with Shinsegae Property under 50:50 ratio for the year ended December 31, 2018. The disposal of the shares is limited for 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.

As of March 31, 2023, 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.

**23. Contingent Liabilities and Commitments (Continued)**

The Group has entered into a capital contribution agreement in relations to debt instruments of Smilegate-Newdeal fund, and etc., with the ceiling of ₩65,557 million. As of March 31, 2023, the outstanding contribution amount is ₩28,013 million, and the detailed timeline for contribution is yet to be determined.

The Group has entered into a capital contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩101,000 million. As of March 31, 2023, 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 March 31, 2023, 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 balance 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 March 31, 2023, the Group is being provided with a commitment 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.

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.



**23. Contingent Liabilities and Commitments (Continued)**

During the year ended March 31, 2023, 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 prompting the construction, the Group also promised to pay ₩10 billion to Bando Engineering & Construction Co., Ltd. until October 20, 2023.

During the year ended March 31, 2023, the Parent Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., Cosmococ Co., Ltd., and Renzoluc Pte., Ltd. to provide operating funds and other management-related business support.

As of March 31, 2023, 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 March 31, 2023.

The Group is engaged in manufacturing and selling tobacco in Russia. As of March 31, 2023, 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 March 31, 2023.

The OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting) is intended to counter tax avoidance and tax base erosion through income transfer by multinational corporations in the digital economy. The BEPS Pillar Two model rules apply to multinational entities with consolidated sales exceeding 750 million euros. In Korea, the global minimum tax was passed by the National Assembly at the end of 2022 as part of the revision of the 'Act on International Tax Adjustment'. The domestic effective date of this law is January 1, 2024, and the enforcement decree on the global minimum tax has not been amended as of March 31, 2023. As the global minimum tax in Korea has not been substantially enacted for financial reporting purposes, there is no related tax effect recognized by the Group in its consolidated financial statements as of March 31, 2023.

# KT&G Corporation and Its Subsidiaries

## Notes to the Interim Consolidated Financial Statements, Continued

March 31, 2023 and 2022 (Unaudited)



### 24. Cash Flows

Cash generated from operations for the three-month periods ended March 31, 2023 and 2022 are as follows:

(in millions of Korean won)		March 31, 2023	March 31, 2022
Profit for the three-month periods ended March 31	₩	255,710	₩ 257,874
Adjustments:			
Employee welfare		885	1,196
Retirement benefits		5,806	7,874
Loss (Reversal) on valuation or obsolescence of inventories		601	(66)
Depreciation		34,556	33,498
Amortization		4,714	1,865
Impairment loss on trade and other receivables		7,894	3,888
Loss on foreign currency translation		2,732	4,464
Loss on valuation of derivatives		9,398	5,760
Loss on disposal of property, plant and equipment		14	17
Loss on disposal of intangible assets		-	7
Loss on impairment of intangible assets		63	33
Loss on disposal of investment property		59	-
Loss on disposal of assets held for sale		-	1,218
Loss on impairment of investments in subsidiaries		266	1,916
Other expenses, etc.		311	422
Finance costs		10,956	22,531
Income tax expense		99,630	99,447
Gain on foreign currency translation		(62,502)	(37,922)
Gain on valuation of derivatives		(3,805)	(675)
Gain on disposal of property, plant and equipment		(1,391)	-
Gain on disposal of investment properties		(2,622)	-
Gain on disposal of assets held for sale		-	(21,070)
Gain on disposal of investments in associates and joint ventures		-	(4,359)
Other income, etc.		(1,812)	(1,168)
Finance income		(83,511)	(52,639)
Changes in working capital:			
Increase in trade and other receivables		(31,219)	(202,678)
Decrease (Increase) in derivatives		24,081	(4,583)
Decrease (Increase) in inventories		(20,468)	30,842
Decrease (Increase) in accrued tobacco excise and other taxes		(45,148)	146,764
Increase in advance payments		(682)	(4,540)
Decrease in prepaid expenses		64	1,245
Increase (Decrease) in trade and other payables		(429,861)	64,019
Increase (Decrease) in advance receipts		5,905	(756)
Increase (Decrease) in tobacco excise and other taxes payable		62,380	(195,549)
Increase (Decrease) in net defined benefit liabilities (assets)		1,370	(2,883)
Cash generated from operations	₩	(155,626)	₩ 155,992

**25. 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)

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Revenue <sup>1</sup>	₩ 244	₩ 692
Expenses <sup>2</sup>	(2,871)	(5,066)
Profit (loss) on discontinued operation, before tax	(2,627)	(4,374)
Income tax expense	-	-
Profit (loss) on discontinued operation, after tax	(2,627)	(4,374)
Exchange differences on translating foreign operations	(1,055)	(544)
Total comprehensive income (loss) on discontinued operation	₩ (3,682)	₩ (4,918)

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

<sup>2</sup>The expenses include selling, general and administrative expenses and other expenses.

Profit or loss from discontinued operations for the three-month periods ended March 31, 2023 and 2022 are entirely attributed to the owners of the Parent Company.

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

(in millions of Korean won)

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Cash flows from operating activities	₩ (2,861)	₩ (11,997)
Cash flows from investing activities	-	7
Cash flows from financing activities	(235)	(304)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	458	630
	₩ (2,638)	₩ (11,664)

**26. Subsequent Event**

The Parent Company had been under a tax investigation for the taxation periods 2018-2020 from the Daejeon Regional Tax Office beginning on January 26, 2023, and the relevant payment amount was reflected in the interim consolidated financial statements according to the results of the tax investigation notification received on May 9, 2023.