



# **KT&G Corporation and its subsidiaries**

Consolidated financial statements  
for each of the two years in the period ended December 31, 2023  
with the independent auditor's report

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## **Independent Auditor's Report**

(English Translation of a Report Originally Issued in Korean)

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

#### **Opinion**

We have audited the consolidated financial statements of KT&G Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2023, and the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2023 in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

We have also audited the Group's internal control over financial reporting ("ICFR") as of December 31, 2023 based on the Conceptual Framework for Design and Operation of ICFR established by the Operating Committee of ICFR in Korea, in accordance with Korean Standards on Auditing ("KSA"), and our report dated March 4, 2024, expressed an unqualified opinion thereon.

#### **Basis for opinion**

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

#### **Key audit matter**

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

***Recognition of revenues from pre-sale construction contracts***

As described in Note 2 to the consolidated financial statements, the Group sells residential and commercial properties under a long-term contract with customers, and recognizes revenues from pre-sale construction contracts over the period based on the cost-plus pricing method for the contracts with the following characteristics:

- i) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- ii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

In addition, the Group determines that it holds the right to payment for performance completed to date only if it meets the following conditions as described in the 2017-I-KQA015 Question and Answer from Korea Accounting institute, and in assessing the existence and enforceability of a right to payment for performance completed to date, the Group shall consider the contractual terms as well as any legislation or legal precedent that could supplement or override those contractual terms:

- i) in circumstances where the customer has the contractual right to terminate within a specified period and the Group is entitled to receive penalties at least for the portion of performance completed by the Company; and
- ii) in circumstances when the customer acts to terminate the contract without having the right to terminate the contract at that time, the contract might entitle the Group to continue to transfer to the customer the goods or services as described in the contract and require the customer to pay the consideration promised in exchange for those goods or services.

As described in Note 24 to the consolidated financial statements, the Group recognizes revenue over the period based on the pre-sales rate and percentage-of-completion of eight construction projects, including Suwon Hwaseo Prugio Brisciel, Knowledge Industry Center at the Goyang Hyangdong district and others as of December 31, 2023. The stage of completion of construction in progress can be determined in various ways, but the Group measured it by dividing the ratio of the accumulated contract cost by the total expected contract cost.

As described in Note 3 to the consolidated financial statements, the total contract revenue is affected by various uncertainties related the outcome of future events in the course of performing the contract, and the total contract cost is estimated based on future estimates such as material, labor, and outsourcing costs, and the construction period, hence there is uncertainty that may change in the future. Therefore, we identified it as a significant risk due to the risk of misstatement of the real estate sales and their costs arising from uncertainties in the estimation of the total contract revenue and cost, and selected it as a key audit matter requiring the auditor's attention.

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

- We reviewed contracts for each construction project and accounting and auditing standards to ensure the appropriateness of revenue recognition accounting policies;
- We obtained an understanding of the internal controls related to real estate revenue recognition and tested the effectiveness of the design and operation of the controls;
- We corroborated the existence and occurrence of the contracts through examination of external evidence such as pre-sales contract letters;
- We inquired about fluctuations in the pre-sales rate and percentage-of-completion of a construction in progress by reporting periods;
- We examined documents to investigate significant fluctuations in the total estimated costs for construction projects by reporting periods, and the reasons behind such fluctuations;
- We compared the estimated total contract costs used in calculating the percentage-of-completion of a contract with the contractual amounts with contractor;
- We assessed the appropriateness of the estimated costs through comparison between the estimated total contract costs and actual total incurred costs;
- We performed on-site inspection for major construction projects to assess the existence and appropriateness of the percentage-of-completion;
- We examined documents to corroborate the occurrence and appropriateness of period attribution of costs for each construction project;
- We performed recalculation of the percentage-of-completion and revenues from pre-sale contracts accordingly for each construction project; and
- We reviewed the Group's substantive control over its subsidiaries acquired for the purpose of the property construction projects.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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



March 4, 2024

This report is effective as of March 4, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

# **KT&G Corporation and its subsidiaries**

Consolidated financial statements  
for each of the two years in the period ended December 31, 2023

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

Bok-in Baek  
Chief Executive Officer  
KT&G Corporation

**KT&G Corporation and its subsidiaries**  
**Consolidated statements of financial position**  
**As of December 31, 2023 and 2022**



(in millions of Korean won)

	Notes		December 31, 2023		December 31, 2022
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5, 31, 32	W	1,031,953	W	1,401,018
Current other financial assets	5, 31, 32, 33		294,103		201,075
Current financial assets measured at fair value through profit or loss	6, 31, 32		342,933		393,106
Trade and other receivables	7, 24, 30, 31		1,506,539		1,528,511
Derivative assets	31, 33		7,751		23,069
Inventories	8		2,763,769		2,575,842
Refund assets and others	19		820		984
Accrued tobacco excise and other taxes			324,366		276,182
Advance payments	33		79,451		51,090
Prepaid expenses			66,689		58,708
<b>Total current assets</b>			<b>6,418,374</b>		<b>6,509,585</b>
<b>Non-current assets</b>					
Long-term other financial assets	5, 31, 33		84,462		42,826
Long-term deposits in MSA Escrow Fund	31, 33		1,479,737		1,437,130
Long-term financial assets measured at fair value through profit or loss	6, 31		344,455		320,429
Long-term trade and other receivables	7, 30, 31		149,670		108,476
Long-term financial assets measured at fair value through other comprehensive income or loss	9, 31		233,058		206,494
Investments in associates and joint ventures	4, 10, 30, 33		471,327		274,534
Property, plant and equipment	4, 11, 33		2,096,467		1,837,041
Intangible assets	4, 12		175,028		167,851
Investment properties	4, 13, 33		1,018,434		1,071,463
Right-of-use assets	4, 15		49,029		40,244
Long-term advance payments	33		105,725		113,066
Long-term prepaid expenses			12,663		7,131
Deferred income tax assets	28		74,949		55,758
Net defined benefit assets	18		59,074		109,688
<b>Total non-current assets</b>			<b>6,354,078</b>		<b>5,792,131</b>
<b>Total assets</b>		W	<b>12,772,452</b>	W	<b>12,301,716</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term borrowings	16, 31, 32, 33, 34	W	61,576	W	72,629
Current portion of long-term borrowings	16, 31, 32, 33, 34		27,521		4,126
Trade and other payables	17, 30, 31		1,684,673		1,505,796
Current lease liabilities	31, 34		18,702		16,559
Advance receipts	24		17,203		21,493
Current refund liabilities and provisions	19, 33		33,213		21,563
Current income tax liabilities	28		191,016		218,730
Tobacco excise and other taxes payables			638,510		666,419
<b>Total current liabilities</b>			<b>2,672,414</b>		<b>2,527,315</b>
<b>Non-current liabilities</b>					
Long-term borrowings and bond	16, 31, 32, 33, 34		469,813		78,808
Long-term trade and other payables	17, 18, 30, 31		58,390		52,896
Long-term lease liabilities	31, 34		27,776		21,050
Long-term advance receipts	24		4,177		2,567
Net defined benefit liabilities	18		36,038		32,478
Long-term refund liabilities and provisions	19, 33		5,117		18,954
Deferred income tax liabilities	28		185,971		181,299
Non-controlling interests liabilities	31		17,821		27,769
<b>Total non-current liabilities</b>			<b>805,103</b>		<b>415,821</b>
<b>Total liabilities</b>		W	<b>3,477,517</b>	W	<b>2,943,136</b>

KT&G Corporation and its subsidiaries  
Consolidated statements of financial position, Continued  
As of December 31, 2023 and 2022



(in millions of Korean won)

	Notes	December 31, 2023	December 31, 2022
<b>Equity</b>			
Share capital	20	₩ 954,959	₩ 954,959
Other capital surplus	20	4,946	4,498
Treasury shares	21	(1,236,933)	(1,236,933)
Gain on sale of treasury shares	21	528,894	528,894
Reserves	22	7,230,300	6,812,286
Retained earnings	23	1,692,239	2,251,940
<b>Equity attributable to owners of the Parent Company</b>		<b>9,174,405</b>	<b>9,315,644</b>
<b>Non-controlling interest</b>	35	<b>120,530</b>	<b>42,936</b>
<b>Total equity</b>		<b>₩ 9,294,935</b>	<b>₩ 9,358,580</b>
<b>Total liabilities and equity</b>		<b>₩ 12,772,452</b>	<b>₩ 12,301,716</b>

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

**KT&G Corporation and its subsidiaries**
**Consolidated statements of comprehensive income**
**For each of the two years in the period ended December 31, 2023**


(in millions of Korean won)	Notes	2023		2022	
<b>Continuing operations</b>					
<b>Sales</b>	4, 24, 30	₩	5,862,608	₩	5,851,406
<b>Cost of sales</b>	25, 30		(3,054,393)		(2,891,166)
<b>Gross profit</b>			2,808,215		2,960,240
Selling, general and administrative expense	25, 30		(1,640,879)		(1,692,590)
<b>Operating profit</b>			1,167,336		1,267,650
Other income	26, 30		201,551		299,644
Other expense	26, 30		(194,022)		(230,629)
Finance income	27, 31		138,936		131,413
Finance costs	27, 31		(67,814)		(87,540)
Share of net profit of associates and joint ventures	10		9,610		29,370
Profit (loss) arising from net monetary assets			(7,215)		19,611
<b>Profit before income tax</b>			1,248,382		1,429,519
Income tax expense	28		(318,836)		(415,602)
<b>Profit from continuing operations</b>			929,546		1,013,917
<b>Discontinued operations</b>					
Loss from discontinued operations	36		(7,185)		(8,590)
<b>Profit for the year</b>		₩	922,361	₩	1,005,327
<b>Other comprehensive income (loss) for the year after income tax</b>					
Items that will not be reclassified to profit or loss					
Re-measurements of net defined benefit liabilities	18	₩	(31,954)	₩	64,777
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	9, 31		19,629		5,818
Capital changes in equity method	10		(69)		38
Items that will be reclassified to profit or loss					
Exchange differences on translating foreign operations			(8,755)		6,757
Capital changes in equity method	10		(393)		(144)
			(21,542)		77,246
<b>Total comprehensive income for the year</b>		₩	900,819	₩	1,082,573
<b>Profit for the year is attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations		₩	909,847	₩	1,024,375
Loss from discontinued operations	36		(7,185)		(8,590)
Profit attributable to owners of the Parent Company			902,662		1,015,785
Non-controlling interests					
Profit (loss) from continuing operations			19,699		(10,458)
Profit (loss) from discontinued operations	36		-		-
Profit attributable to non-controlling interests			19,699		(10,458)
<b>Total</b>		₩	922,361	₩	1,005,327
<b>Total comprehensive income (loss) for the year attributable to:</b>					
Owners of the Parent Company					
Profit from continuing operations		₩	889,677	₩	1,099,832
Loss from discontinued operations	36		(7,701)		(10,118)
Total comprehensive income attributable to owners of the Parent Company			881,976		1,089,714
Non-controlling interests					
Profit (loss) from continuing operations			18,843		(7,141)
Profit (loss) from discontinued operations	36		-		-
Total comprehensive income (loss) attributable to non-controlling interests			18,843		(7,141)
<b>Total</b>		₩	900,819	₩	1,082,573
<b>Earnings per share</b>					
Basic and diluted					
From continuing operations	29	₩	7,905	₩	8,561
From discontinued operations			(62)		(72)
		₩	7,843	₩	8,489

*“The accompanying notes are an integral part of the consolidated financial statements”*



<i>(In millions of Korean won)</i>									
	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the Parent	Non-controlling interest	Total equity
<b>Balance as of January 1, 2022</b>	954,959	W 4,498	W (879,982)	W 528,894	W 6,490,161	W 2,060,255	W 9,158,785	W 50,077	W 9,208,862
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	-	1,015,785	1,015,785	(10,458)	1,005,327
Profit (loss) for the year	-	-	-	-	-	-	-	-	-
<b>Other comprehensive income (loss) for the year:</b>	-	-	-	-	-	61,462	61,462	3,315	64,777
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	5,818	-	5,818	-	5,818
Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	8,445	(8,445)	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	6,755	-	6,755	2	6,757
Capital changes in equity method	-	-	-	-	(108)	-	(108)	-	(108)
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	20,912	53,017	73,929	3,317	77,246
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	20,912	1,068,802	1,089,714	(7,141)	1,082,573
Dividends paid	-	-	-	-	-	(575,904)	(575,904)	-	(575,904)
Transfer to other reserve	-	-	-	-	301,213	(301,213)	-	-	-
Acquisition of treasury shares	-	-	(356,951)	-	-	-	(356,951)	-	(356,951)
<b>Balance as of December 31, 2022</b>	954,959	W 4,498	W (1,236,933)	W 528,894	W 6,812,286	W (877,117)	W 9,315,644	W 42,936	W 9,358,580
<b>Balance as of January 1, 2023</b>	954,959	W 4,498	W (1,236,933)	W 528,894	W 6,812,286	W 2,251,940	W 9,315,644	W 42,936	W 9,358,580
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	-	902,682	902,682	19,689	922,361
Profit for the year	-	-	-	-	-	-	-	-	-
<b>Other comprehensive income (loss) for the year:</b>	-	-	-	-	-	(31,098)	(31,098)	(856)	(31,954)
Re-measurements of net defined benefit liabilities	-	-	-	-	-	-	-	-	-
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	19,629	-	19,629	-	19,629
Exchange differences on translating foreign operations	-	-	-	-	(8,795)	-	(8,795)	-	(8,795)
Capital changes in equity method	-	-	-	-	(462)	-	(462)	-	(462)
<b>Total comprehensive income for the year</b>	-	-	-	-	10,412	(31,098)	(20,686)	(856)	(21,542)
<b>Transactions with owners of the Parent Company:</b>	-	-	-	-	10,412	871,564	881,976	18,843	900,819
Dividends paid	-	-	-	-	-	(720,935)	(720,935)	-	(720,935)
Transfer to other reserve	-	-	-	-	407,602	(407,602)	-	-	-
Acquisition of treasury shares	-	-	(302,728)	-	-	-	(302,728)	-	(302,728)
Retirement of treasury shares	-	-	302,728	-	-	(302,728)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-
Share options	-	448	-	-	-	-	-	58,751	58,751
<b>Balance as of December 31, 2023</b>	954,959	W 4,946	W (1,236,933)	W 528,894	W 7,230,300	W (1,431,265)	W 9,173,957	W 120,530	W 9,294,935

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

**KT&G Corporation and its subsidiaries**
**Consolidated statements of cash flows**
**For each of the two years in the period ended December 31, 2023**

*(in millions of Korean won)*

	Notes	2023	2022
<b>Net Cash flows provided by operating activities</b>	₩	1,265,993	₩ 887,887
Cash generated from operations	34	1,646,282	1,310,291
Income taxes paid		(380,289)	(422,404)
<b>Net Cash flows provided by (used in) investing activities</b>		(848,296)	547,544
Interest received		55,856	31,996
Dividends received		27,515	32,682
Decrease in other financial assets		138,975	881,076
Decrease in current financial assets measured at fair value through profit or loss		403,273	661,016
Decrease in long-term financial assets measured at fair value through profit or loss		5,086	2,030
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		-	7,200
Disposal of property, plant and equipment		7,253	3,744
Disposal of intangible assets		1,035	300
Disposal of investment properties		9,526	2,277
Disposal of assets held for sale		372	69,796
Disposal of investments in associates and joint ventures		41	42,882
Receipt of government grant		332	-
Collection of loans		24,309	22,494
Collection of guarantee deposits		3,232	543
Increase in other financial assets		(276,186)	(658,997)
Increase in current financial assets measured at fair value through profit or loss		(300,950)	(19,799)
Increase in long-term financial assets measured at fair value through profit or loss		(62,038)	(64,701)
Increase in financial assets at fair value through other comprehensive income or loss		-	(3,000)
Increase in long-term deposits in MSA Escrow Fund		(1,635)	(96,556)
Acquisition of property, plant and equipment		(472,769)	(241,382)
Acquisition of intangible assets		(40,613)	(41,502)
Acquisition of investment properties		(22,392)	(27,906)
Acquisition of right-of-use assets		(1,440)	(3,295)
Acquisition of investments in associates and joint ventures		(191,978)	(34,489)
Increase in loans		(106,880)	(16,651)
Increase in guarantee deposits		(4,201)	(2,214)
Net cash outflows due to changes in scope of consolidation		(47,298)	-
Other increase in relation to investment properties		3,279	-
<b>Net Cash flows used in financing activities</b>		(775,827)	(931,786)
Dividends paid		(776,434)	(575,904)
Interest paid		(25,407)	(10,205)
Repayment of lease liabilities		(23,849)	(20,341)
Acquisition of treasury shares		(302,728)	(356,951)
Repayment of borrowings		(1,823,639)	(218,193)
Proceeds in borrowings		1,847,311	249,808
Proceeds from issuance of bond		328,919	-
<b>Net increase (decrease) in cash and cash equivalents</b>		(358,130)	503,645
<b>Cash and cash equivalents at the beginning of the year</b>		1,401,018	946,571
Effect of exchange rate fluctuation on cash and cash equivalents		(10,935)	(49,198)
<b>Cash and cash equivalents at the end of the year</b>	₩	1,031,953	₩ 1,401,018

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

## 1. Reporting Entity and Its Subsidiaries

### 1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of December 31, 2023, the Parent Company has three manufacturing plants, including 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. The Parent Company was excluded from the application of Framework Act on the Management of Government-Invested Institutions, and became an entity existing and operating under the Commercial Act of Korea, pursuant to the Act on Improvement of Managerial Structure and Privatization of Public Enterprises, proclaimed on August 28, 1997, and enforced on October 1, 1997, in order to secure financing and to promote and develop, through efficient management, the monopoly business of red ginseng and tobacco.

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

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



## 1.1 Overview of the Parent Company (cont'd)

The Parent Company's major shareholders as of December 31, 2023, are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
Industrial Bank of Korea	9,510,485	7.11
National Pension Service	8,883,001	6.64
Employee Share Ownership Association	4,899,892	3.66
Treasury shares	21,012,574	15.70
Others	89,516,545	66.89
Total	133,822,497	100.00

## 1.2 Consolidated Subsidiaries

Details of consolidated subsidiaries as of December 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	Dec.31.2023	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	Dec.31.2023	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	Dec.31.2023	Korea
	KT&G Tutun Mamuleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	99.99	Dec.31.2023	Türkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	Dec.31.2023	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	Dec.31.2023	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	Dec.31.2023	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	Dec.31.2023	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	Dec.31.2023	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	Dec.31.2023	Singapore
	SangSang Stay Inc.	Hotel business	100.00	Dec.31.2023	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	Dec.31.2023	Russia
	Gwacheon Sangsang PFV. Inc.	Real estate development and sales business	51.00	Dec.31.2023	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	Dec.31.2023	Taiwan
	Master No.144 PFV Co., Ltd.	Real estate development and sales business	92.50	Dec.31.2023	Korea
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	Dec.31.2023	Kazakhstan
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	Dec.31.2023	Kazakhstan
	DNC Deogeun Co., Ltd. <sup>2</sup>	Real estate development and sales business	38.25	Dec.31.2023	Korea
	Edn the pine central Seocho	Real estate development and sales business	78.65	Dec.31.2023	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	Dec.31.2023	Korea
	KGC Life&Gin Co., Ltd.	Selling ginseng, etc.	100.00	Dec.31.2023	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	Dec.31.2023	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	Dec.31.2023	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	Dec.31.2023	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	Dec.31.2023	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	Dec.31.2023	Japan
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	Dec.31.2023	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur <sup>3</sup>	Manufacturing and selling tobaccos	99.99	Dec.31.2023	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	Dec.31.2023	Indonesia

## 1.2 Consolidated Subsidiaries (cont'd)

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

<sup>2</sup>The Parent company has acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of the voting rights of DNC Deogeun Co., Ltd., and the Parent company classified the shares as investments in subsidiaries. As the Parent company holds substantial decision-making right over related activities that has significant impact on the profit or loss of DNC Deogeun Co., Ltd. through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

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

During the year ended December 31, 2023, the Parent Company acquired 75,344,496 shares (₩ 25,624 million) (2022: 131,020,854 shares (₩ 49,457 million)) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. through issuance of new stocks.

During the year ended December 31, 2023, the Parent Company acquired 6,000,000 shares (₩ 30,000 million) of SangSang Stay Inc. and 1,408,940 shares (₩ 65,000 million) of Tae-A Industrial Co., Ltd. through issuance of new stocks.

During the year ended December 31, 2023, the Parent Company newly established KT&G Global Kazakhstan LLP and KT&G Kazakhstan LLP through capital investment of ₩ 18,510 million and ₩ 16,188 million, respectively.

During the year ended December 31, 2023, the Parent Company invested additional ₩ 19,722 million in KT&G Kazakhstan LLP.

During the year ended December 31, 2023, the Parent Company has acquired 3,825 shares (₩ 35,552 million) of preferred stocks with voting rights of DNC Deogeun Co., Ltd. and 7,000,000 preferred stocks with voting rights (₩ 35,000 million) of Edn the pine central Seocho Co., Ltd. through equity purchase.

During the year ended December 31, 2023, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, set the merger date on 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. PT KT&G Indonesia, a subsidiary of the Parent Company, was absorbed and merged. There is no transaction gain or loss recognized as the transactions under the common control are accounted for based on the book value and assets, liabilities and equity are recognized and derecognized at the book value of the date of merger.

### 1.3 Summarized Financial Information

Details of summarized financial information<sup>1</sup> for consolidated subsidiaries as of and for the year ended December 31, 2023, are as follows:

(in millions of Korean won)

(in millions of Korean won)	2023									
	Total assets		Total liabilities		Revenue		Profit (loss) for year		Total comprehensive income (loss)	
Korea Ginseng Corporation	₩	2,523,634	₩	226,347	₩	1,223,362	₩	81,582	₩	75,040
Yungjin Pharm. Co., Ltd.		226,601		136,968		234,902		(3,876)		(5,671)
Tae-A Industrial Co., Ltd.		129,682		12,702		34,809		1,165		975
KT&G Tutun Mamulleri		92,500		39,436		36,238		4,161		676
Sanayi ve Ticaret A.S.										
Korea Tabacos do Brasil Ltda.		2,904		221		326		173		421
KT&G Pars		6		53,292		-		-		-
KT&G Rus L.L.C.		192,279		114,702		78,398		6,807		(4,965)
KT&G USA Corporation		22,583		64,923		-		(7,185)		(7,701)
Cosmocos Co., Ltd.		43,551		28,994		75,610		230		67
Renzoluc Pte., Ltd.		137,601		37,135		-		(1,573)		(2,469)
SangSang Stay Inc.		70,491		34,440		28,362		4,276		4,127
KT&G Global Rus L.L.C.		132,521		123,447		65,243		2,911		1,730
Gwacheon Sangsang PFV. Inc.		85,743		58,495		71,000		16,746		16,746
KT&G Taiwan Corporation		24,131		13,372		26,662		2,937		3,074
Mastern No.144 PFV Co., Ltd.		79,929		43,047		3,721		(1,826)		(1,826)
KT&G Global Kazakhstan LLP		42,436		24,157		36,059		(1,414)		(231)
KT&G Kazakhstan LLP		37,254		3,519		-		(2,334)		(2,176)
DNC Deogeun Co., Ltd.		138,700		26,724		93,965		26,880		26,880
Edn the pine central Seocho Co., Ltd.		98,885		61,612		-		(949)		(949)
PT Trisakti Purwosari Makmur		718,364		538,009		385,840		21,699		24,732
PT Nusantara Indah Makmur		82		-		-		-		2
KGCyebon Corporation		51,853		4,204		12,497		(1,252)		(1,303)
KGC Life&Gin Co., Ltd.		29,533		6,495		31,294		(2,255)		(2,361)
Jilin Hanzheng Ginseng Co., Ltd.		57,105		2,682		28,914		1,317		1,116
Cheong Kwan Jang Taiwan Corporation		44,619		29,347		54,016		(96)		86
Korean Red Ginseng Corp., Inc.		25,600		11,408		41,938		234		470
Korea Ginseng (China) Corp.		76,457		62,091		138,684		1,913		1,837
Korea Ginseng Corp. Japan		13,633		10,919		15,433		258		140
K&I China Co., Ltd.		295		4,048		2,162		285		293

<sup>1</sup>The above financial information is according to each company's separate financial statements.

### 1.3 Summarized Financial Information (cont'd)

Details of summarized financial information<sup>1</sup> for consolidated subsidiaries as of and for the year ended December 31, 2022 are as follows:

(in millions of Korean won)

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

<sup>1</sup>The above financial information is according to each company's separate financial statements.

## 2. Material Accounting Policies

### 2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (KIFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

- certain financial assets and financial liabilities (including derivatives);
- assets held for sale measured at fair value less cost to sell; and
- defined contribution plans and plan assets measured at fair value.

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

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

## 2.1 Basis of Preparation(cont'd)

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

(in percent)

Foreign operation	Country	Price Index	2023	2022
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	TUIK CPI	64.78	64.27

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

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

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

## 2.2 Changes in Accounting Policies and Disclosures

### (1) New and amended standards and interpretations

The Group does not have a history of early adoption of new accounting standards and interpretations that have been published but are not mandatory for the reporting period. There are various amendments and interpretations which have been applied for the first time in the 2023 reporting period. As of December 31, 2023, these amendments and interpretations do not have a material impact on the consolidated financial statements.

#### *(a) KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to KIFRS 1001 define and require entities to disclose their material accounting policy information (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements).

#### *(b) KIFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price*

The amendments require disclosure of valuation gains or losses of the financial liabilities, if all or part of the financial instrument with exercise price that is adjusted depending on the issuer's share price change is classified as financial liability.

#### *(c) KIFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies.

#### *(d) KIFRS 1012 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction.

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

### *(e) New Standard: KIFRS 1117 Insurance Contract*

KIFRS 1117 *Insurance Contracts* replaces KIFRS 1104 *Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses.

### *(f) KIFRS 1012 Income Taxes – International Tax Reform – Pillar Two Model Rules*

The amendments provide a temporary relief from the accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, which aim to reform international corporate taxation for multinational enterprises, and require disclosure of related current tax effects, etc. The Group applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, and the Pillar Two legislation is scheduled to be effective from January 1, 2024.

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

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2023 reporting period and have not been early adopted by the Group.

### *(a) Amendments to KIFRS 1001 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. In addition, covenants that an entity is required to comply with after the end of the reporting period would not affect classification of a liability as current or non-current at the reporting date. When an entity classifies a liability that is subject to the covenants which an entity is required to comply with within twelve months of the reporting date as non-current at the end of the reporting period, the entity shall disclose information in the notes to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted.

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

### *(b) Amendments to KIFRS 1007 Statement of Cash Flows, KIFRS 1107 Financial Instruments: Disclosures – Supplier finance arrangements*

When applying supplier finance arrangements, an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted.

### *(c) Amendments to KIFRS 1116 Leases – Lease Liability in a Sale and Leaseback*

When subsequently measuring lease liabilities arising from a sale and leaseback, a seller-lessee shall determine lease payments or revised lease payments in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted.

The Group is in review for the impact of these amendments on the consolidated financial statements.

## **2.3 Material Accounting Policies**

Material Accounting Policies and method of computation used in the preparation of the consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2023, except for the changes due to the application of amendment and enactments of standards described in Note 2.2 and the ones described below.

### **(1) Operating Segments**

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

### **(2) Consolidation**

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

## 2.3 Material Accounting Policies (cont'd)

### (a) Subsidiaries

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

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

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

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

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

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

## 2.3 Material Accounting Policies (cont'd)

### *(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group stops applying the equity method in cases where the proportion of the associate's loss attributable to the Group is either equal to or greater than the Group's investment holdings (including non-current investment holdings which form a part of the net investment) in the associate.

However, in cases where the Group has either legal-constructive obligations or needs to make payments on behalf of the associate for any additional losses after the Group's holdings in the associate has been reduced to zero (0), the Group recognizes losses and liabilities only up to those additional losses.

If there are objective signs of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. When using the financial statements of the associates in order to apply the equity method, the Group reviews whether associates have used the same accounting policies the Group would apply for transactions or events that have occurred under similar circumstances and makes adjustments to the financial statements of the associates if necessary.

### *(c) Business combinations under common control*

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

### *(3) Joint Arrangements*

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

### 2.3 Material Accounting Policies (cont'd)

#### (4) Property, Plant and Equipment

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

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

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

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

Type	Estimated useful lives (years)
Land	Indefinite
Buildings	10 - 60
Structures	3 - 40
Machinery	1 - 30
Vehicles	3-10
Tools	4-8
Equipment	1-10
Others	1 - 5 or indefinite

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

## 2.3 Material Accounting Policies (cont'd)

### (5) Borrowing Costs

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

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

### (6) Government Subsidies

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

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

## 2.3 Material Accounting Policies (cont'd)

### (7) Intangible Assets

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

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

Type	Estimated useful lives (years)
Industrial property rights	5 - 20 or indefinite
Facility usage rights	Indefinite
Intangible assets under development	Indefinite
Others	1 - 14 or indefinite

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

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

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

## 2.3 Material Accounting Policies (cont'd)

### (8) Investment Property

Property held for earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

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

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

### (9) Assets Held for Sale

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

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

## 2.3 Material Accounting Policies (cont'd)

### (10) Inventories

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

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

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

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

### (11) Impairment of Non-Financial Assets

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

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

## 2.3 Material Accounting Policies (cont'd)

### (12) Financial Assets (Other than Derivative Instruments)

#### *(a) Classification*

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

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

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

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

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

#### *(b) Measurement*

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

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

#### *- Debt instruments*

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

## 2.3 Material Accounting Policies (cont'd)

### A. Financial assets measured at amortized cost

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

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

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

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

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

#### - Equity instruments

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

## 2.3 Material Accounting Policies (cont'd)

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

### *(c) Impairment*

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

### *(d) Recognition and derecognition*

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

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

### *(e) Offsetting of financial instruments*

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

## 2.3 Material Accounting Policies (cont'd)

### (13) Financial Liabilities

#### *(a) Classification and measurement*

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

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

#### *(b) Derecognition*

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

### (14) Derivative Instruments

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

### (15) Cash and Cash Equivalents

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

## 2.3 Material Accounting Policies (cont'd)

### (16) Employee Benefits

#### *(a) Short-term employee benefits*

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

#### *(b) Other long-term employee benefits*

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

#### *(c) Retirement benefits: Defined contribution plans*

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

#### *(d) Retirement benefits: Defined benefit plans*

Defined benefit pension plans are all pension plans excluding defined contribution pension plans. Generally, the amount of retirement pension payable to employees at retirement are confirmed through factors such as age, number of years worked or salary level, etc.

The net defined liability (asset) recognized on the consolidated financial statement of financial position in relation to defined benefit plans is the amount of deficit (or amount of surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling) as determined by deducting the present value of the defined benefit obligations from the fair value of plan assets as of the end of the reporting period. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is presented in the currency that the salary will be paid and is calculated by discounting the expected future cash outflow by the interest rate of a corporate bonds with a good credit rating with a maturity similar to the period when payment of the defined benefit obligation is due.

### 2.3 Material Accounting Policies (cont'd)

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

#### *(e) Termination benefits*

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

#### *(17) Refund Liabilities and Provisions*

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

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

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

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

#### *(18) Paid-in Capital*

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

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

## 2.3 Material Accounting Policies (cont'd)

### (19) Revenue Recognition

The Group's revenue categories consist of revenue from goods sold, services and other income.

#### *(a) Sales of goods*

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

Since the Group's contract with customers to supply goods allows customers a right of return, the amount of consideration that the Group receives can be variable. Variable consideration is estimated by using the expected value method, which the Group expects to better predict the amount of consideration to which it is entitled. The Group recognizes revenue by including in the transaction price variable consideration only up to the amount where it is highly probable that a significant portion of the accumulated revenue already recognized will not be reversed.

Refund liabilities are recognized at the amount of consideration received (or receivable) for which the Group does not expect to be entitled. When customers exercise their right of return, the Group has a right to recover its products from customers. The Group recognizes this right as a refund asset and makes a corresponding adjustment to the cost of sales. The Group's right to recover its products are measured by deducting the cost of retrieving the goods from customers from the previous book value of the product.

#### *(b) Rendering of services*

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

## 2.3 Material Accounting Policies (cont'd)

### *(c) Sale of real estate*

The Group sells residential real estate and others according to long-term contracts with customers. Such contracts are signed before construction of the residential real estate begins. According to the contract conditions, transferring the real estate to another customer is restricted and the Group has the right to claim for enforceable payment with regard to work performed up to that point.

Therefore, revenue incurred from residential real estate is recognized based on the percentage-of-completion method (in other words, actual cost to date as a proportion of the estimated total cost). Management has deemed the percentage-of-completion method to be an appropriate method for measuring the progress rate until performance obligations are satisfied in accordance with KIFRS 1115.

For housing contracts meeting the conditions as described in Korea Accounting Institute's Question and Answer of 2017-I-KQA015, the revenue from the pre-sale of real estate is recognized using the percentage-of-completion method, and the accounting is effective only within the context of KIFRS.

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

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

### *(d) Lease of real estate*

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

## (20) Finance Income and Finance Cost

Finance income includes interest income, dividend income etc. from investments in financial assets. Interest income, as it accrues, is recognized through profit or loss using the effective interest method. Dividend income is recognized through profit or loss on the date the Group's right to receive the dividend as a shareholder is established.

Finance cost includes interest expense on borrowings and lease liabilities, amortization on trade and other payables etc. Interest expense, as it accrues, is recognized through profit or loss using the effective interest method.

## 2.3 Material Accounting Policies (cont'd)

### (21) Income Tax Expense

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

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

Deferred tax assets and liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority which intends to settle income taxes on a net basis.

## 2.3 Material Accounting Policies (cont'd)

### (22) Functional and Presentation Currency

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

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

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

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

### (23) Earnings per Share

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

## 2.3 Material Accounting Policies (cont'd)

### (24) Lease

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

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

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

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

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

### 2.3 Material Accounting Policies (cont'd)

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

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

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

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

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

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

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

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

## 2.3 Material Accounting Policies (cont'd)

### (25) Emission Rights

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

### (26) Share-based Payments

CEO of the Group receive remuneration in the form of share-based payments, whereby CEO render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the "vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

### (27) Going Concern

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

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

## **2.3 Material Accounting Policies (cont'd)**

### **(28) Discontinued Operations**

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

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

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

### **(29) Approval of Financial Statements**

The consolidated financial statements of the Group have been approved by the Board of Directors on February 28, 2024, and may be modified and approved at the Annual General Meeting of Shareholders.

### 3. Material Accounting Estimates and Assumptions

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

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

#### (1) Impairment of CGUs

The Group determines whether to recognize an impairment loss on CGUs in accordance with KIFRS 1036 *Impairment of Assets*. When there is an indication of impairment of assets, the Group performs an impairment assessment by comparing the carrying amount of a CGU with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is determined based on the estimation of the value in use or fair value less costs to sell (see Note 12).

#### (2) Total construction revenue and total construction cost

##### *(a) Uncertainty of total contract revenue estimates*

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

##### *(b) Estimated total construction cost*

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

### 3. Material Accounting Estimates and Assumptions (cont'd)

#### (3) Climate-related risks

The Group considers climate-related risks in its estimates and assumptions. This assessment includes a wide range of possible on the Group due to both physical and transition risks. Even though the Group believes that its business model and products will still be viable after the transition to a low-carbon economy, climate-related risks increase the uncertainty of estimates and assumptions underpinning several items in the financial statements. Even though climate-related risks might not currently have a material impact on measurement, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation. The items and considerations that are most directly affected by climate-related risks are as follows:

##### *(a) Useful lives of property, plant and equipment*

When reviewing the residual value and expected useful life of an asset, the Group considers climate-related risks, including climate-related legislation and regulations that may restrict the use of asset or require significant capital expenditures.

##### *(b) Impairment of non-financial assets*

The value-in-use may be impacted in several different ways by transition risks in particular, such as climate-related legislation and regulations and changes in demand for the Group's products.

##### *(c) Fair value measurements*

For investment properties and revalued office properties, the Group considers the effect of physical and transition risks, and whether investors would consider those risks in their valuation.

##### *(d) Decommissioning liability*

The impact of climate-related legislation and regulations is considered in estimating the timing and future costs of decommissioning one of the Group's manufacturing facilities.

##### *(e) Emission rights*

The Group receives free emission rights on an annual basis and, in return, it is required to remit rights equal to its actual emissions. The Group has adopted the net liability approach to the emission rights granted.

#### 4. Operating Segment

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

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

<sup>1</sup>During the year ended December 31, 2023, the Group reclassified SangSang Stay Inc. from Others to Real estate segment and revised the comparable information.

(b) Details of segment information on sales and operating profit for each of the two years in the period ended December 31, 2023 are as follows:

		2023						
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩	3,848,097	₩ 1,546,138	₩ 599,222	₩ 312,674	₩ 6,306,131	₩ (443,523)	₩ 5,862,608
Intersegment sales		(235,821)	(152,613)	(49,112)	(5,977)	(443,523)	443,523	-
External sales		3,612,276	1,393,525	550,110	306,697	5,862,608	-	5,862,608
Operating profit (loss) <sup>1</sup>		957,720	85,836	77,889	4,420	1,125,865	41,471	1,167,336
Depreciation and amortization		162,224	48,653	29,961	10,672	251,510	(10,437)	241,073

<sup>1</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 them by segment.

		2022						
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩	3,895,624	₩ 1,570,177	₩ 707,970	₩ 298,725	₩ 6,472,496	₩ (621,090)	₩ 5,851,406
Intersegment sales		(321,824)	(181,181)	(100,857)	(17,228)	(621,090)	621,090	-
External sales		3,573,800	1,388,996	607,113	281,497	5,851,406	-	5,851,406
Operating profit (loss) <sup>1</sup>		1,046,817	89,148	210,778	(8,178)	1,338,565	(70,915)	1,267,650
Depreciation and amortization		144,708	50,199	29,457	9,759	234,123	(8,668)	225,455

<sup>1</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 them by segment.

#### 4. Operating Segment (cont'd)

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

(in millions of Korean won)

(in millions of Korean won)		2023		2022	
Revenue recognized at a point in time:					
	Wholesale, retail	₩	3,561,539	₩	3,531,551
Tobacco	Direct sales		50,737		42,249
	Wholesale, retail		831,939		764,394
Ginseng	Direct sales		561,586		624,602
	Wholesale, retail		304,607		262,739
Others	Direct sales		2,090		18,758
Real estate	Sales		79,864		4,208
	Subtotal		5,392,362		5,248,501
Revenue recognized over time:					
	Sales		367,491		513,417
Real estate	Rental		102,755		89,488
	Subtotal		470,246		602,905
	Total	₩	5,862,608	₩	5,851,406

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

(in millions of Korean won)

(in millions of Korean won)		2023													
		Tobacco		Ginseng		Real estate		Others		Segment total		Adjustments		Consolidated	
Assets:															
Segment assets		W	7,021,732	W	2,227,057	W	1,373,604	W	243,090	W	10,865,483	W	(2,757,145)	W	8,108,338
Investments in associates and joint ventures			-		-		453,340		17,987		471,327		-		471,327
Subtotal		W	7,021,732	W	2,227,057	W	1,826,944	W	261,077	W	11,336,810	W	(2,757,145)	W	8,579,665
Common assets															4,192,787
Total assets														W	12,772,452
Acquisition of non-current assets		W	476,431	W	80,202	W	4,747	W	13,665	W	575,045	W	(24,528)	W	550,517
Liabilities:															
Segment liabilities		W	2,631,990	W	259,630	W	51,775	W	91,463	W	3,034,858	W	(532,461)	W	2,502,397
Common liabilities															975,120
Total liabilities														W	3,477,517

(in millions of Korean won)

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

#### 4. Operating Segment (cont'd)

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

(e) Regional information by customer's location for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			2022		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 4,066,574	₩ 1,796,034	₩ 5,862,608	₩ 4,063,007	₩ 1,788,399	₩ 5,851,406
Non-current assets	3,116,373	222,585	3,338,958	3,001,560	115,039	3,116,599

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. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		2023	2022
Cash on hand	₩	62	₩ 563
Demand deposits		848,899	565,913
Money Market trust		-	338,906
Other cash and cash equivalents		182,992	495,636
Total	₩	1,031,953	₩ 1,401,018

(b) Details of other financial assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		2023		2022	
		Current	Non-current	Current	Non-current
Time deposits	₩	264,103	₩ 4,035	₩ 184,040	₩ 2,402
Money Market Trust		-	-	17,000	-
Certificate of Deposit		30,000	-	-	-
Company stock, etc.		-	80,427	35	40,424
Total	₩	294,103	₩ 84,462	₩ 201,075	₩ 42,826

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

Details of financial assets measured at fair value through profit or loss as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		2023		2022	
		Current	Non-current	Current	Non-current
Money Market Trust	₩	-	₩ 4,380	₩ 375,958	₩ 5,600
MMF		295,258	-	-	-
Beneficiary certificate		47,675	340,075	17,148	314,829
Total	₩	342,933	₩ 344,455	₩ 393,106	₩ 320,429

## 7. Trade and Other Receivables

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

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,328,580	₩ -	₩ 1,366,523	₩ -
Loans	58,989	87,727	19,180	52,887
Other receivables	30,899	2,634	94,904	1,087
Guarantee deposits	72,146	59,201	37,549	54,466
Accrued income	15,925	108	10,355	36
Total	₩ 1,506,539	₩ 149,670	₩ 1,528,511	₩ 108,476

(b) Details of allowances for doubtful accounts to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,570,234	₩ 150,147	₩ 1,608,031	₩ 108,556
Allowances:				
Trade receivables	(59,446)	-	(78,666)	-
Other receivables	(4,249)	(477)	(854)	(80)
Total allowances	(63,695)	(477)	(79,520)	(80)
Net trade and other receivables	₩ 1,506,539	₩ 149,670	₩ 1,528,511	₩ 108,476

(c) Changes in allowance for doubtful accounts for trade and other receivables for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Beginning balance	₩ 79,600	₩ 79,007
Impairment loss (reversal of impairment loss) <sup>1</sup>	(13,202)	5,419
Write off	(387)	(4,262)
Net exchange difference and others	(1,839)	(564)
Ending balance	₩ 64,172	₩ 79,600

<sup>1</sup>Reversal of impairment loss classified as profit or loss from discontinued operations of ₩ 250 million and ₩ 828 million are included for each of the two years in the period ended December 31, 2023 respectively.

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

## 8. Inventories

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

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 69,582	₩ (1,963)	₩ 67,619	₩ 42,708	₩ (3,037)	₩ 39,671
Finished goods	352,918	(39,634)	313,284	460,150	(35,719)	424,431
Half-finished goods and work in progress	1,043,034	(3,032)	1,040,002	1,023,783	(3,596)	1,020,187
Raw materials	900,339	(5,084)	895,255	858,261	(8,763)	849,498
Supplies	69,117	-	69,117	54,325	-	54,325
By-products	9,328	-	9,328	5,160	-	5,160
Buildings under construction	20,938	-	20,938	61,597	-	61,597
Completed buildings	129,941	-	129,941	1,490	-	1,490
Sites for construction of real estate	129,633	-	129,633	66,622	-	66,622
Goods in transit	88,652	-	88,652	52,988	(127)	52,861
Total	₩ 2,813,482	₩ (49,713)	₩ 2,763,769	₩ 2,627,084	₩ (51,242)	₩ 2,575,842

(b) The amount of loss(reversal) on valuation and obsolescence of inventories recognized for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Cost of sales:		
Reversal of loss on valuation of inventories	₩ (1,588)	₩ (2,872)
Loss on obsolescence of inventories	7,805	10,613
Other expense:		
Loss on obsolescence of inventories	2,121	232
Total	₩ 8,338	₩ 7,973

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

(a) Details of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Listed:				
YTN Co., Ltd.	₩	50,447	₩	46,761
Oscotech Inc.		12,170		9,134
Shinhan Financial Group Co., Ltd.		160,936		141,094
Subtotal		223,553		196,989
Unlisted		9,505		9,505
Total	₩	233,058	₩	206,494

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

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

(b) Changes in financial assets at fair value through other comprehensive income or loss for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	206,494	₩	228,398
Acquisition		-		3,000
Changes in fair value		26,564		7,596
Disposal and reclassification		-		(32,500)
Ending balance	₩	233,058	₩	206,494

## 10. Investments in Associates and Joint Ventures

(a) Details of investments in associates and joint ventures as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	Date of financial statements used	2023		2022	
					Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	Manufacturing medical supplies	Dec.31.2023	12.53	₩ 4,123	12.53	₩ 3,997
	KORAMCO Banpo PFV Co., Ltd. <sup>1,2</sup>	Korea	Real estate investment, development and rental business	Dec.31.2023	18.95	2,163	18.95	2,964
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	Korea	Real estate investment, development and rental business	Dec.31.2023	19.47	1,455	19.47	1,652
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	Dec.31.2023	21.01	24,010	21.01	24,010
	KOCREF 41 REIT <sup>3</sup>	Korea	Real estate investment, development and rental business	Dec.31.2023	26.47	46,025	26.47	46,498
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	Dec.31.2023	21.43	20,961	21.43	19,521
	Cheongna Medipolis PFV Co., Ltd. <sup>4</sup>	Korea	Real estate development and sales	Dec.31.2023	51.01	107,512	56.74	15,617
	INNODIS Co., Ltd. <sup>1</sup>	Korea	Game, advertising agency	Dec.31.2023	19.64	393	19.64	514
	SJ BIO MED Co., Ltd. <sup>1,6</sup>	Korea	Manufacturing medical devices	Dec.31.2023	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	New medicine development	Dec.31.2023	21.92	-	22.73	-
	Mirae Asset KT&G Investment Fund I	Korea	Health Care, ESG, New business industry	Dec.31.2023	50.00	10,473	50.00	4,939
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	Real estate development and rental business	Dec.31.2023	35.00	104	-	-
	KB KT&G New Growth Fund 1 <sup>7</sup>	Korea	Real estate development and rental business	Dec.31.2023	66.67	2,998	-	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>5</sup>	Germany	Real estate development and rental business	Dec.31.2023	51.35	10,568	51.35	11,712
	Starfield Suwon Inc.	Korea	Real estate development and rental business	Dec.31.2023	50.00	240,542	50.00	143,110
Total						₩ 471,327	₩ 274,534	

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

<sup>2</sup>As of December 31, 2023, The Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan (see Note 33 (c)).

<sup>3</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.

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

<sup>4</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>5</sup>The Group has classified the ownership as investment in joint ventures as the Board of Directors' unanimous consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>6</sup>As of December 31, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>7</sup>Although the ownership exceeds 50%, the Group has classified the ownership as investment in associates as the Group does not have control over related activities and has significant influence through participating on investment decision-making authority.

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

① As of and for the year ended December 31, 2023

### A. Summarized financial information

(in millions of Korean won)

Name of entity	2023					
	Current assets		Non-current assets		Current liabilities	
LitePharmTech Co., Ltd.	₩	14,958	₩	53,142	₩	17,404
KORAMCO Banpo PFV Co., Ltd.		4,003		129,966		40,736
KORAMCO Dongjak PFV Co., Ltd.		1,745		27,227		21,837
KOCREF 36 REIT		3,223		432,190		293,115
KOCREF 41 REIT		11,093		375,318		207,434
AndaStation Professional Investment Private REIT No.1		32,564		308,940		237,071
Cheongna Medipolis PFV Co., Ltd.		188,434		-		-
INNODIS Co., Ltd.		2,253		6,739		3,351
Mirae Asset KT&G Investment Fund I		7,112		14,040		207
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.		297		-		-
KB KT&G New Growth Fund 1		4,501		-		3
KORAMCO Europe Private REIT 3-2 Fund		2,241		108,227		3,200
Starfield Suwon Inc.		99,334		847,178		27,740
						437,690
						5,890
						375
						1,201
						(3,888)
						(1,014)
						870
						6,098
						6,732
						(6,966)
						(369)
						1,068
						(3)
						(3)
						(2,685)
						(5,136)

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

## B. Additional financial information on joint ventures

(in millions of Korean won)

	2023						
	Cash and cash equivalents	Current financial liabilities <sup>1</sup>	Non-current financial liabilities <sup>1</sup>	Depreciation expense	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	₩ 1,108	₩ 911	₩ 83,895	₩ 3,454	₩ 160	₩ 2,014	₩ 7
Starfield Suwon, Inc.	84,223	-	386,919	246	-	1	-

<sup>1</sup>Exclude trade payables, other payables and provisions.

## ② As of and for the year ended December 31, 2022

## A. Summarized financial information

(in millions of Korean won)

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

## B. Additional financial information on joint ventures

(in millions of Korean won)

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

<sup>1</sup>Exclude trade payables, other payables and provisions.

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

(c) Changes in investments in associates and joint ventures for each of the two years in the period ended December 31, 2023 are as follows:

## ① For the year ended December 31, 2023

(in millions of Korean won)

Name of entity	2023													
	Beginning balance		Acquisition <sup>1</sup>		Disposal		Share of net profit (loss) <sup>2</sup>		Dividends		Capital changes		Ending balance	
LitePharmTech Co., Ltd.	₩	3,997	₩	-	₩	-	₩	134	₩	-	₩	(8)	₩	4,123
KORAMCO Banpo PFV Co., Ltd.		2,964		-		-		(801)		-		-		2,163
KORAMCO Dongjak PFV Co., Ltd.		1,652		-		-		(197)		-		-		1,455
KOCREF 36 REIT		24,010		-		-		1,200		(1,200)		-		24,010
KOCREF 41 REIT		46,498		-		-		1,614		(2,087)		-		46,025
AndaStation Professional Investment Private REIT No.1		19,521		-		-		2,394		(954)		-		20,961
Cheongna Medipolis PFV Co.,Ltd.		15,617		83,978		-		7,917		-		-		107,512
INNODIS Co., Ltd.		514		-		-		(20)		-		(101)		393
Mirae Asset KT&G Investment Fund I		4,939		5,000		-		605		-		(71)		10,473
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.		-		105		-		(1)		-		-		104
KB KT&G New Growth Fund 1		-		3,000		-		(2)		-		-		2,998
KORAMCO Europe Private REIT 3-2 Fund		11,712		-		(32)		(749)		-		(363)		10,568
Starfield Suwon Inc.		143,110		100,000		-		(2,484)		-		(84)		240,542
Total	₩	274,534	₩	192,083	₩	(32)	₩	9,610	₩	(4,241)	₩	(627)	₩	471,327

<sup>1</sup>The effect of changes in scope of consolidation amounting to ₩ 105 million is included.

<sup>2</sup>Profits or losses arising from the additional acquisition of investments in associates and joint ventures are included.

## ② For the year ended December 31, 2022

(in millions of Korean won)

Name of entity	2022							
	Beginning balance	Acquisition	Disposal	Share of net profit (loss)	Dividends	Capital changes	Reclassification, etc. <sup>1</sup>	Ending balance
LitePharmTech Co., Ltd.	₩ 3,923	₩ 211	₩ -	₩ (151)	₩ -	₩ 14	₩ -	₩ 3,997
KORAMCO Banpo PFV Co., Ltd.	4,059	-	-	(1,095)	-	-	-	2,964
KORAMCO Dongjak PFV Co., Ltd.	1,727	-	-	(75)	-	-	-	1,652
KORAMCO Amsa PFV Co., Ltd.	1,048	-	-	(63)	-	-	(985)	-
KOCREF 36 REIT	24,010	-	-	1,200	(1,200)	-	-	24,010
KOCREF 41 REIT	-	29,489	(12,279)	12,934	(1,646)	-	18,000	46,498
AndaStation Professional Investment Private REIT No.1	18,081	-	-	2,394	(954)	-	-	19,521
Kiwoom Milestone Private REIT No.16	15,384	-	(30,622)	16,637	(1,399)	-	-	-
Cheongna Medipolis PFV Co., Ltd.	17,064	-	-	(1,447)	-	-	-	15,617
INNODIS Co., Ltd.	478	-	-	36	-	-	-	514
Mirae Asset KT&G Investment Fund I	-	5,000	-	(61)	-	-	-	4,939
KORAMCO Europe Private REIT 3-2 Fund6	13,426	-	-	(221)	(1,298)	(195)	-	11,712
Starfield Suwon Inc.	143,792	-	-	(718)	-	36	-	143,110
Total	₩ 242,992	₩ 34,700	₩ (42,901)	₩ 29,370	₩ (6,497)	₩ (145)	₩ 17,015	₩ 274,534

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

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

(d) Reconciliation of the summarized financial information presented to the carrying amount of the Group's investments in associates and joint ventures as of December 31, 2023 and 2022, are as follows:

## ① As of December 31, 2023

(in millions of Korean won)

Name of entity	2023					
	Net assets	Ownership (%)	Share of net assets <sup>1</sup>	Goodwill	Preferred stock effect	Carrying amount
LitePharmTech Co., Ltd.	₩ 32,906	12.53	₩ 4,123	₩ -	₩ -	₩ 4,123
KORAMCO Banpo PFV Co., Ltd.	10,533	18.95	1,996	167	-	2,163
KORAMCO Dongjak PFV Co., Ltd.	7,135	19.47	1,390	65	-	1,455
KOCREF 36 REIT	140,116	21.01	29,438	-	(5,428)	24,010
KOCREF 41 REIT	173,878	26.47	46,025	-	-	46,025
AndaStation Professional Investment Private REIT No.1	81,022	21.43	17,363	270	3,328	20,961
Cheongna Medipolis PFV Co., Ltd.	171,752	51.01	87,611	382	19,519	107,512
INNODIS CO., Ltd.	2,000	19.64	393	-	-	393
Mirae Asset KT&G Investment Fund I	20,945	50.00	10,473	-	-	10,473
JIELGWANGJIN City Development Co., Ltd.	297	35.00	104	-	-	104
KB KT&G New Growth Fund 1	4,498	66.67	2,998	-	-	2,998
KORAMCO Europe Private REIT 3-2 Fund	22,107	51.35	10,568	-	-	10,568
Starfield Suwon, Inc.	481,082	50.00	240,542	-	-	240,542

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

## ② As of December 31, 2022

(in millions of Korean won)

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

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

## 11. Property, Plant and Equipment

(a) Details of carrying amount of property, plant and equipment as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 527,210	₩ -	₩ 527,210	₩ 490,691	₩ -	₩ 490,691
Buildings	1,224,786	(639,512)	585,274	1,117,114	(610,378)	506,736
Structures	84,190	(48,393)	35,797	74,682	(45,627)	29,055
Machinery	1,846,915	(1,313,344)	533,571	1,767,654	(1,271,960)	495,694
Vehicles	8,858	(6,844)	2,014	9,128	(6,808)	2,320
Tools	100,690	(73,015)	27,675	87,414	(65,926)	21,488
Equipment	187,037	(140,579)	46,458	193,812	(152,232)	41,580
Others	6,165	(786)	5,379	5,087	(377)	4,710
Construction in progress	333,103	(14)	333,089	244,767	-	244,767
Total	₩ 4,318,954	₩ (2,222,487)	₩ 2,096,467	₩ 3,990,349	₩ (2,153,308)	₩ 1,837,041

(b) Changes in property, plant and equipment for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023						
	Beginning balance	Acquisition <sup>1</sup>	Disposal	Depreciation	Impairment	Reclassification, etc. <sup>2</sup>	Ending balance
Land	₩ 490,691	₩ 12,914	₩ (64)	₩ -	₩ -	₩ 23,669	₩ 527,210
Buildings	506,736	50,983	(431)	(33,655)	(1,492)	63,133	585,274
Structures	29,055	6,873	(261)	(3,677)	-	3,807	35,797
Machinery	495,694	68,650	(2,209)	(89,807)	(8,028)	69,271	533,571
Vehicles	2,320	1,062	(573)	(824)	-	29	2,014
Tools	21,488	13,629	(61)	(9,857)	(6)	2,482	27,675
Equipment	41,580	26,441	(844)	(21,825)	-	1,106	46,458
Others	4,710	429	(2)	(85)	-	327	5,379
Construction in progress	244,767	268,475	-	-	(107)	(180,046)	333,089
Total	₩ 1,837,041	₩ 449,456	₩ (4,445)	₩ (159,730)	₩ (9,633)	₩ (16,222)	₩ 2,096,467

<sup>1</sup>For the year ended December 31, 2023, capitalized borrowing costs amounting to ₩ 3,614 million are included for property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.33%~5.39%.

<sup>2</sup>Consists of ₩ 33 million which was reclassified to inventories, ₩ 239 million which was reclassified to intangible assets, and ₩ 13,722 million which was reclassified to investment property (see Notes 8, 12 and 13).

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

(in millions of Korean won)

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

<sup>1</sup>During the year, the Group has capitalized borrowing costs amounting to ₩ 2,378 million on property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 3.13%~3.77%.

<sup>2</sup>Consists of ₩ 713 million which was reclassified to inventories, ₩ 1,867 million which was reclassified to intangible assets, ₩ 120 million of transfers from intangible assets, and ₩ 39,968 million which was reclassified to investment property (see Notes 8, 12 and 13).

## 12. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩ 108,093	₩ (108,093)	₩ -	₩ 108,093	₩ (108,093)	₩ -
Industrial property rights	65,622	(37,121)	28,501	58,563	(36,310)	22,253
Facility usage rights	40,171	(395)	39,776	40,171	(395)	39,776
Intangible assets under development	34,145	(3,359)	30,786	33,572	(3,359)	30,213
Other intangible assets	245,689	(169,724)	75,965	218,436	(142,827)	75,609
Total	₩ 493,720	₩ (318,692)	₩ 175,028	₩ 458,835	₩ (290,984)	₩ 167,851

(b) Changes in intangible assets for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. <sup>1</sup>	
Industrial property rights	22,253	1,895	(117)	(618)	(226)	5,314	28,501
Facility usage rights	39,776	-	-	-	-	-	39,776
Intangible assets under development	30,213	16,483	(41)	-	(600)	(15,269)	30,786
Other intangible assets	75,609	20,494	(1,265)	(29,615)	-	10,742	75,965
Total	₩ 167,851	₩ 38,872	₩ (1,423)	₩ (30,233)	₩ (826)	₩ 787	₩ 175,028

<sup>1</sup>Consists of ₩ 24 million which was reclassified to expense and ₩ 239 million which was reclassified from property, plant and equipment (see Note 11).

(in millions of Korean won)

	2022						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Reclassification, etc. <sup>1</sup>	
Industrial property rights	18,629	1,893	(363)	(415)	(237)	2,746	22,253
Facility usage rights	39,558	525	(307)	-	-	-	39,776
Intangible assets under development	45,600	20,455	(51)	-	(139)	(35,652)	30,213
Other intangible assets	41,932	21,173	(16)	(21,878)	(34)	34,432	75,609
Total	₩ 145,719	₩ 44,046	₩ (737)	₩ (22,293)	₩ (410)	₩ 1,526	₩ 167,851

<sup>1</sup>Consists of ₩ 120 million which was reclassified to property, plant and equipment and ₩ 1,867 million which was reclassified from property, plant and equipment (see Note 11).

## 12. Intangible Assets (cont'd)

(c) Research and development expenditures recognized as expenses for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Cost of sales	₩	3,793	₩	1,438
Selling, general and administrative expenses		50,655		50,531
Total	₩	54,448	₩	51,969

(d) Impairment assessment on CGUs (including goodwill)

The Group reviews if there is any indication of impairment for the CGUs, and if an indication of impairment is found, the Group estimates the recoverable amount and performs an impairment assessment. As a result of the impairment assessment of the CGUs of Indonesian tobacco business that had an indication of impairment, there were no impairment loss recognized for the year ended December 31, 2023.

During the years ended December 31, 2023, future cash flows to measure value in use are estimated for the next five years based on the Group's past operating performance and future business plans, and subsequent cash flows are estimated by applying a 1% permanent growth rate. This permanent growth rate does not exceed the estimated long-term average growth rates from relevant industry reports.

The key assumptions applied in measuring value in use, are as follows:

<i>(in percent)</i>	<b>Type<sup>1</sup></b>	<b>2023</b>
Sales growth rate		12.44
Gross margin (% of revenue)		37.03
Operating income rate		8.87

<sup>1</sup>Annual average rate over the five-year forecast period.

## 12. Intangible Assets (cont'd)

Discount rate used for value-in-use calculation is weight average cost of capital adjusted to reflect the risks specific to the asset. Details of the discount rates used for value-in-use calculation for the years ended December 31, 2023 is as follows:

(in percent)

Type	2023
CGUs of the Indonesian tobacco business	11.70

The recoverable amount and impairment loss recognized on CGUs of Indonesian tobacco business for the year ended December 31, 2023 are as follows:

(in millions of Korean won)

Type	2023
Recoverable amount	206,989
Impairment loss recognized	-

The assumptions that are most sensitive to the value in use of tobacco business in CGUs of Indonesian tobacco business are the discount rate and permanent growth rate, and the effects of changes in the assumptions for the years ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	
	Increase by 1%p	Decrease by 1%p
Discount rate		
Impact on value in use	₩ (74,750)	₩ 91,903
Impairment loss recognized	(544)	-
Permanent growth rate		
Impact on value in use	72,045	(59,730)
Impairment loss recognized	-	-

**12. Intangible Assets (cont'd)**

(e) Individually significant intangible assets

Details of individually significant intangible assets as of December 31, 2023 and 2022, are as follows:

*(in millions of Korean won)*

		<u>Useful lives</u>	<u>2023</u>	<u>2022</u>
SAP system development	Intangible assets under development	-	₩ 134	₩ 8,839
	Other intangible assets	4 years	45,893	36,185
	Total		<u>₩ 46,027</u>	<u>₩ 45,024</u>

### 13. Investment Properties

(a) Details of carrying amount of investment properties as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 449,549	₩ (1,029)	₩ 448,520	₩ 617,835	₩ (1,029)	₩ 616,806
Buildings	655,624	(240,853)	414,771	656,443	(217,664)	438,779
Right-of-use assets	79	(46)	33	655	(654)	1
Construction in progress	155,110	-	155,110	15,877	-	15,877
Total	₩ 1,260,362	₩ (241,928)	₩ 1,018,434	₩ 1,290,810	₩ (219,347)	₩ 1,071,463

(b) Changes in investment properties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023					
	Beginning balance	Acquisition <sup>1</sup>	Disposal	Depreciation	Reclassification, etc. <sup>2</sup>	Ending balance
Land	₩ 616,806	₩ 19	₩ (870)	₩ -	₩ (167,435)	₩ 448,520
Buildings	438,779	-	(1,109)	(23,512)	613	414,771
Right-of-use assets	1	-	-	(18)	50	33
Construction in progress	15,877	20,317	-	-	118,916	155,110
Total	₩ 1,071,463	₩ 20,336	₩ (1,979)	₩ (23,530)	₩ (47,856)	₩ 1,018,434

<sup>1</sup>During the year, the Group has capitalized borrowing costs amounting to ₩ 1,992 million on investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.4%~4.8%.

<sup>2</sup>Consists of ₩ 56,959 million reclassified to inventories and ₩ 13,722 million reclassified from property, plant and equipment (see Notes 8 and 11).

(in millions of Korean won)

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

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

**13. Investment Properties (cont'd)**

(c) Details of profit or loss recognized in relation to the investment properties for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		2023	2022
Rental income	₩	75,721	₩ 74,377
Operating expenses		(24,511)	(23,045)
Total	₩	51,210	₩ 51,332

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		2023		2022	
		Fair value	Carrying amount	Fair value	Carrying amount
Land	₩	1,213,219	₩ 447,273	₩ 1,416,251	₩ 444,301
Buildings		536,375	414,771	531,704	414,122
Right-of-use asset		33	33	2	2
Total	₩	1,749,627	₩ 862,077	₩ 1,947,957	₩ 858,425

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

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

<i>(in millions of Korean won)</i>		Carrying amount		Reason why fair value cannot be measured reliably
Type		2023	2022	
Hogye-dong development site	Land	₩ -	₩ 124,576	Construction in progress
	Construction in progress	134,847	-	
Ssangmun-dong development site <sup>1</sup>	Land	-	1,495	
	Buildings	-	24,656	
Mia-dong development site <sup>1</sup>	Land	-	41,264	
	Construction in progress	-	717	
Donggwang-dong development site	Construction in progress	7,627	475	
Anyang-dong development site	Construction in progress	6,007	364	
Nokbeon-dong development site <sup>1</sup>	Construction in progress	-	151	
Seoicheon development site	Construction in progress	754	461	
Gwacheon Sangsang Xi Tower	Land	1,247	5,169	
	Construction in progress	5,875	13,710	
		₩ 156,357	₩ 213,038	

<sup>1</sup>The construction of the Ssangmun-dong development site was completed for the year ended December 31, 2023, and Mia-dong and Nokbeon-dong development sites were excluded as their use was changed to sale.

### 13. Investment Properties (cont'd)

#### (e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2023, variable lease payment that is based on an index or a rate was ₩ 2,032 million. Even though the Group is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of future minimum lease payments that the Group expects to receive from operating lease contracts for the investment properties described above as of December 31, 2023, are as follows:

(in millions of Korean won)

	2023			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩ 60,517	₩ 68,286	₩ 977	₩ 129,780

### 14. Assets Held for Sale

There are no changes for the year ended December 31, 2023, and changes in assets held for sale for the year ended December 31, 2022, are as follows:

(in millions of Korean won)

	2022
Beginning balance	₩ 20,124
Reclassification, etc. <sup>1</sup>	23,632
Disposal	(43,756)
Ending balance	₩ -

<sup>1</sup>Consists of ₩ 22,647 million of transfers from investment properties during the year ended December 31, 2022, ₩ 985 million of transfers from investments in associates during the year ended December 31, 2022 (see Notes 10 and 13).

## 15. Right-of-use Assets

(a) Details of the carrying amount of right-of-use assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			2022		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 6,688	₩ (1,673)	₩ 5,015	₩ 6,710	₩ (1,541)	₩ 5,169
Buildings	63,673	(32,911)	30,762	56,312	(33,069)	23,243
Machinery	-	-	-	117	(59)	58
Vehicles	28,489	(15,237)	13,252	25,318	(13,544)	11,774
Total	₩ 98,850	₩ (49,821)	₩ 49,029	₩ 88,457	₩ (48,213)	₩ 40,244

(b) Changes in right-of-use assets for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 5,169	₩ -	₩ -	₩ (140)	₩ (14)	₩ 5,015
Buildings	23,243	30,657	(2,554)	(18,113)	(2,471)	30,762
Machinery	58	-	-	(58)	-	-
Vehicles	11,774	11,196	(446)	(9,269)	(3)	13,252
Total	₩ 40,244	₩ 41,853	₩ (3,000)	₩ (27,580)	₩ (2,488)	₩ 49,029

(in millions of Korean won)

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

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

(c) The amounts recognized on the consolidated statements of comprehensive income related to lease for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Depreciation expense	₩	27,580	₩	20,044
Interest expense		1,477		793
Short-term lease expense		2,490		5,451
Lease payment for low-value assets		951		8,907
Variable lease expense		71,876		77,058
Loss on lease contract adjustments		(359)		(294)
Total	₩	104,015	₩	111,959

For the year ended December 31, 2023, total cash outflows related to lease is ₩ 100,644 million (2022: ₩ 112,551 million).

**(d) Sale and leaseback transactions**

For the year ended December 31, 2023, the Group made a transaction for sale and leaseback of the Knowledge Industry Center in Gwacheon Knowledge Information Town and rented the right-of-use assets to a third party for asset-backed securitization and improvement of financial structure.

The key condition for sale and leaseback transactions are as follows:

<b>Classification</b>	<b>Details</b>
Transaction type	Sale and leaseback
Transaction party	Knowledge industry center
Transaction amount	₩ 27,124 million
Object	Knowledge industry center in Gwacheon knowledge information town
Period	5 years

Details of amount recognized from sale and leaseback transactions for the year ended December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>
Increase in right-of-use assets	₩ 3,483
Increase in lease liabilities	5,522
Decrease in inventories	15,191
Gain arising from sale and leaseback <sup>1</sup>	9,504

<sup>1</sup>Gain arising from sale and leaseback transactions has been reflected in sales.

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

Meanwhile, the Group has provided right-of-use assets which was recognized as sale and leaseback as sublease to a third party and classified the lease as operating lease since most of the risks and rewards arising from the ownership of the assets are not transferred in a sublease.

For the year ended December 31, 2023, the Group has recognized, ₩ 20 million of lease payment income arising from sublease.

## 16. Borrowings and Bonds

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

(in millions of Korean won)		Lender	Annual interest rate (%)	2023		2022	
Borrowings	Hana Bank		FTP(1 year)+1.08	₩	3,000	₩	7,000
			Bank Debenture (6 months)+1.62		-		3,000
			Benchmark Interest Rate + 1.75		-		7,805
	Hana Bank Bahrain branch		CME Term SOFR(3M)+1.2		5,764		5,686
			Benchmark Interest Rate + 1.75		-		39,025
	KB Kookmin Bank		5.50		37,504		-
			Bank Debenture (6 months)+1.13		-		10,000
	Shinhan Bank		Industrial Financial Debenture (1 year)+1.05		10,000		-
					-		19
	NH Nonghyup Bank		3.87		-		19
			The JoEun MG Community Credit Cooperatives	5.50		4,808	
		Subtotal			61,076		72,535
	Consumer credit agreements <sup>1</sup>	NH Nonghyup Bank	-		-		75
Hana Card		-		-		19	
Subtotal				-		94	
Others	Others	18.00		500		-	
	Total			₩	61,576	₩	72,629

<sup>1</sup>The Group provides payment guarantees to financial institutions in accordance with the consumer credit agreement in connection with retail sales receivables and receives the related receivables from financial institutions through payment by proxy and recognizes them as short-term borrowings. No interest expenses are incurred related to these payment guarantees.

## 16. Borrowings and Bonds(cont'd)

(b) Current portion of long-term borrowings and long-term borrowings as of December 31, 2023 and 2022, are summarized as follows:

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)		2023		2022
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2024.06.10~2027.06.20	-	₩	38,990	₩	51,308
Financial agricultural mid-term loan <sup>1</sup>	NH Nonghyup Bank	2028.07.19	-		14,162		-
Borrowings	NH Nonghyup Bank	2028.11.21	3.00		11,060		-
		2028.12.27	3.00		11,891		-
	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67		10,000		-
		2023.09.11	MOR(6 months) +1.03		-		825
			MOR(6 months) +1.58		-		801
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66		7,500		10,000
		2024.12.01	Industrial Financial Debenture (6 months)+1.44		20,000		20,000
	Hana Bank	2026.12.31	CD+1.881		10		-
	Shinhan Bank	2026.05.21	6.50		3,708		-
	Shinhan Card	2026.05.21	6.50		6,488		-
	NH Investment Securities	2026.05.21	6.50		13,904		-
	OK Savings Bank	2026.05.21	9.00		7,879		-
	Korea Investment Savings Bank	2026.05.21	9.00		6,952		-
	JT CHINAE Savings Bank	2026.05.21	9.00		6,488		-
	The-K Savings Bank	2026.05.21	9.00		4,635		-
	BNK Savings Bank	2026.05.21	9.00		4,635		-
	CHOEUN Savings Bank	2026.05.21	9.00		2,781		-
	INSUNG Savings Bank	2026.05.21	9.00		1,854		-
	Incheon Savings Bank	2026.05.21	9.00		1,854		-
	Total			₩	174,791	₩	82,934
Consolidated statements of financial position:							
Current				₩	27,521	₩	4,126
Non-current					147,270		78,808
	Total			₩	174,791	₩	82,934

<sup>1</sup>The Borrowings is Contract Cultivation Fund for Ginseng-Integration Project that policy fund for agriculture, forestry and fisheries supported by the Ministry of Agriculture, Food and Rural Affairs. Therefore, the interest rate on the loan is 0%, and the current value discount amount is recognized as a Government grants after calculating the present value.

**16. Borrowings and Bonds(cont'd)**

(c) Details of bonds as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>Issuance date</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>2023</b>		<b>2022</b>	
2-1st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩	100,000	₩	-
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322		200,000		-
Subtotal					300,000		-
Discount					(835)		-
Total				₩	299,165	₩	-
Current				₩	-	₩	-
Non-current					299,165		-
Total				₩	299,165	₩	-

(d) Convertible bonds

The book values of convertible bonds issued by the Group as of December 31, 2023 and 2022 are as follows

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Face value	₩	30,300	₩	-
Redemption premium		1,234		-
Conversion right adjustment		(8,156)		-
Total	₩	23,378	₩	-

## 16. Borrowings and Bonds(cont'd)

Details of issuance condition of convertible bonds issued by the Group as of December 31, 2023, are as follows:

Classification	Details
Type and name	1st unregistered non-guarantee private convertible bond
Underwriter	Korea Investment & Securities Co., Ltd. and 13 other underwriters
Issuance date	2023.11.21
Maturity date	2028.11.21
Total issuance amount	₩ 30,300 million
Conversion price per share	₩ 2,305
Number of shares issued at conversion	13,145,336 shares
Condition for conversion price adjustment	<p>A. In the case of issuance of new shares due to paid-in capital increase, capital increase without consideration, stock dividend, capital transfer of reserves at an issue price below the market price, or issuance of convertible bonds or bonds with warrants at a conversion price or exercise price below the market price, the conversion price is adjusted as follows.  Conversion price after adjustment = Conversion price before adjustment <math>\times \frac{[A+(B \times C/D)]}{(A+B)}</math>  A: Number of outstanding shares, B: Number of newly issued shares, C: Issue price per share, D: Market price</p> <p>B. In cases where the conversion price needs to be adjusted due to a merger, capital reduction, stock split or merger, etc., adjust to the same effect that the "bondholder" of the "bonds" could have had if the conversion right had been exercised immediately before these events and the entire amount had been acquired with stocks.</p> <p>C. If reasons for an increase in stock value, such as capital reduction or stock merger, occur, the conversion price is adjusted on the condition that it is reflected upward by the adjustment ratio due to capital reduction, stock merger and others.</p> <p>If the conversion price adjusted in accordance with the above A, B, C provisions is less than the par value of the stock, the par value shall be the conversion price, and the total issuance price of the stocks to be issued through the conversion of each convertible bond cannot exceed the issuance price of each convertible bond.</p>
Conversion period	From November 21, 2024 to October 21, 2028
Conversion ratio	100% of bond price
Early redemption right	On November 21, 2025, which is two years from the date of issuance of the bond, and every three months thereafter, bondholders of the bond may request early redemption before maturity for the entire amount calculated by multiplying the electronic registration amount by the early redemption rate (approximately 2% annual compound interest).
Yield to maturity	2.00%
Coupon rate	-

(e) As discussed in Note 33, the Group provides collaterals for the above borrowings.

## 17. Trade and Other Payables

Details of trade and other payables as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 24,582	₩ 14,642	₩ 26,218	₩ 14,340
Trade payables	260,725	-	220,898	-
Withholdings	11,412	-	9,768	-
Value-added deposit	196,110	-	185,513	-
Accrued expenses	374,267	43,748	303,879	38,556
Other payables	817,577	-	759,520	-
Total	₩ 1,684,673	₩ 58,390	₩ 1,505,796	₩ 52,896

## 18. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Defined benefit plan:		
Current service cost	₩ 45,547	₩ 52,296
Net interest on net defined benefit liabilities (assets)	(2,343)	1,392
Past service cost and loss on settlement	(204)	2,114
Subtotal	43,000	55,802
Defined contribution plan:		
Contributions recognized as expense	6,653	6,759
Other long-term employee benefits:		
Current service cost, etc.	10,019	(2,129)
Termination benefits:		
Voluntary retirements, etc.	2,448	22,029
Total	₩ 62,120	₩ 82,461

**18. Employee Benefits (cont'd)**

(b) Changed in net defined benefit liabilities (assets) for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	(77,210)	₩	46,600
Current service cost		45,547		52,296
Net interest of net defined benefit liabilities		(2,343)		1,392
Past service cost and any loss on settlement		(204)		2,114
Remeasurment element of net defined benefit liabilities (assets) (before tax)		42,504		(86,209)
Payment amount		(2,817)		(10,575)
Payment of plan assets		(28,616)		(82,641)
Net exchange differences		103		(187)
Ending balance	₩	(23,036)	₩	(77,210)
Consolidated statements of financial positions:				
Present value of defined benefit obligations	₩	580,538	₩	520,980
Fair value of plan assets		(603,574)		(598,190)
Total	₩	(23,036)	₩	(77,210)

(c) Changes in the present value of defined benefit obligation for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	520,980	₩	585,308
Current service cost		45,547		52,296
Interest expenses		26,256		14,874
Past service cost and any loss on settlement		(204)		2,114
Remeasurement element (before tax)		43,474		(88,733)
Payment amount		(55,617)		(44,692)
Net exchange differences		102		(187)
Ending balance	₩	580,538	₩	520,980

**18. Employee Benefits (cont'd)**

(d) Changes in fair value of plan assets for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	598,190	₩	538,708
Interest income		28,599		13,482
Remeasurement element (before tax)		969		(2,524)
Payment amount		(52,800)		(34,117)
Payment of plan assets		28,616		82,641
Ending balance	₩	603,574	₩	598,190

The actual amount of interest income arising from plan assets for each of the two years in the period ended December 31, 2023 are ₩ 29,568 million and ₩ 10,958 million, respectively.

(e) Changes in the present value of other long-term employee benefits for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Beginning balance	₩	38,458	₩	43,885
Current service cost		4,128		4,942
Past service cost		2,805		112
Interest cost		1,854		1,066
Remeasurement element		1,232		(8,249)
Payment amount		(2,795)		(3,277)
Net exchange differences		4		(21)
Ending balance	₩	45,686	₩	38,458

**18. Employee Benefits (cont'd)**

(f) Details of remeasurements recognized in other comprehensive income or loss for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ 359	₩ (423)
Changes in financial assumptions	(33,444)	101,042
Experience adjustments	(10,388)	(11,886)
Subtotal	₩ (43,473)	₩ 88,733
Loss from plan assets, excluding amounts included in net interest	₩ 969	₩ (2,524)
Remeasurement element of net defined liabilities (assets) (before tax)	(42,504)	86,209
Tax effect	10,550	(21,432)
Remeasurement element of net defined liabilities (assets) (after tax)	₩ (31,954)	₩ 64,777

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Regular deposits and cash equivalents	₩ 169,012	₩ 185,863
Principal and interest guarantee financial assets, etc.	434,562	412,327
Total	₩ 603,574	₩ 598,190

(h) The major assumptions used for actuarial evaluation as of December 31, 2023 and 2022, are as follows:

<i>(in percent)</i>	<b>2023</b>	<b>2022</b>
Discount rate	3.96 ~ 25.05	5.12 ~ 24.65
Expected wage increase rate	3.00 ~ 20.82	3.00 ~ 20.00

To calculate the present value of the defined benefit obligation, the Group decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2023.

**18. Employee Benefits (cont'd)**

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>Increase by 1%p</u>	<u>Decrease by 1%p</u>
Changes in discount rate	(32,325)	49,539
Changes in expected wage increase rate	50,129	(33,486)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2023.

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

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

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2024 is ₩ 44,925 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2023 and 2022, are 7.32 years and 8.06 years, respectively.

## 19. Refund Liabilities and Provisions

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

(in millions of Korean won)

	2023		2022	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,780	₩ -	₩ 4,172	₩ -
Refund liabilities	12,901	4,409	14,141	4,168
Provision for site restoration	1,537	680	1,764	537
Provision for financial guarantee	18	26	-	134
Provision for greenhouse gases	51	-	194	-
Provision for others	16,926	2	1,292	14,115
Total	₩ 33,213	₩ 5,117	₩ 21,563	₩ 18,954

(b) Changes in refund liabilities and provisions for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 3,436	₩ (5,828)	₩ 1,780
Refund liabilities	18,309	5,349	(6,348)	17,310
Provision for site restoration	2,301	321	(405)	2,217
Provision for financial guarantee	134	30	(120)	44
Provision for greenhouse gases	194	-	(143)	51
Provision for others	15,407	2,146	(625)	16,928
Total	₩ 40,517	₩ 11,282	₩ (13,469)	₩ 38,330

(in millions of Korean won)

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

**19. Refund Liabilities and Provisions (cont'd)**

(c) For returnable sales, the Group sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	<u>2023</u>	<u>2022</u>
Refund assets	₩ 820	₩ 984

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

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

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

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

(h) The Group has signed an agreement with the Iran Tobacco Company to manufacture more than a certain quantity of cigarettes each year. The Group has recognized penalty payments of ₩684 million expected to be paid in the future as (current) other provisions, related to actual production quantities being less than the quantity agreed upon by the agreement. There were no transactions in relation to the manufacturing agreement for each of the two years in the period ended December 31, 2023.

## 20. Share Capital and Other Capital Surplus

Details of share capital and other capital surplus as of December 31, 2023 and 2022, are as follows:

<i>(in shares and millions of Korean won)</i>	2023	2022
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share <i>(in won)</i>	₩ 5,000	₩ 5,000
Issued	133,822,497 shares	137,292,497 shares
Share capital	954,959	954,959
Other capital surplus	4,946	4,498

As 57,169,400 shares (including 3,470,000 shares for the year ended December 31, 2023) of the Parent Company have been written off in profit there is a difference of ₩ 285,847 million between the total face value of the equity and the issued shares.

## 21. Treasury Shares and Gain on disposal of Treasury Shares

(a) Details of treasury shares and gain on disposal of treasury shares as of December 31, 2023 and 2022, are as follows:

<i>(in shares and millions of Korean won)</i>	2023	2022
Number of treasury shares	21,012,574 shares	21,012,574 shares
Treasury shares	₩ (1,236,933)	₩ (1,236,933)
Gain on disposal of treasury shares	528,894	528,894

(b) Changes in the number of treasury shares for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in shares)</i>	2023	2022
Beginning balance	₩ 21,012,574	₩ 17,312,574
Acquisition of treasury shares	3,470,000	3,700,000
Retirement of treasury shares	(3,470,000)	-
Ending balance	₩ 21,012,574	₩ 21,012,574

The Group has acquired 3,470,000 treasury shares (2022: 3,700,000 treasury shares) through a transaction on exchange and retired the all treasury shares acquired during the year ended December 31, 2023.

## 22. Reserves

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

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Profit reserve	₩	602,937	₩	602,937
Reserve for business rationalization		12,851		12,851
Reserve for business expansion		698,881		698,881
Other reserve		5,972,199		5,564,595
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss		(13,643)		(33,272)
Exchange differences on translating foreign operations		(42,387)		(33,631)
Capital changes in equity method		(538)		(75)
Total	₩	7,230,300	₩	6,812,286

### ① Profit reserve

The commercial law stipulates that the Group shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of the December 31, 2023 and 2022, the profit reserve set aside in excess of 50% of the Parent Company's share capital is ₩ 125,457 million.

### ② Reserve for business rationalization

Until 2002, the Parent Company had put the tax deduction amount under the Tax Specialization Act as the corporate rationalized reserve, which could only be used to preserve and transfer capital losses. However, the Act on Restriction of Special Taxes was amended on December 11, 2002, and the relevant provisions were deleted at the time of the amendment.

### ③ Reserve for business expansion and other reserve

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

**22. Reserves (cont'd)**

(b) Details of gain and loss on valuation of financial assets measured at fair value through other comprehensive income or loss as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	<b>2023</b>	<b>2022</b>
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	₩ (20,405)	₩ (47,001)
Tax effect	6,762	13,729
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	₩ (13,643)	₩ (33,272)

**23. Retained Earnings**

Changes in retained earnings for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>	<b>2022</b>
Beginning balance	₩ 2,251,940	₩ 2,060,255
Dividends	(720,935)	(575,904)
Transfer to other reserve	(407,602)	(301,213)
Retirement of treasury shares	(302,728)	-
Profit for the year	922,361	1,005,327
Less: Non-controlling interests	(19,699)	10,458
Transfer of loss on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	(8,445)
Remeasurements of net defined benefit liabilities (after tax)	(31,954)	64,777
Less: non-controlling interests (after tax)	856	(3,315)
Ending balance	₩ 1,692,239	₩ 2,251,940

## 24. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sales contracts for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2023				
				Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative) <sup>2</sup>	Revenue (period)	Cost (cumulative) <sup>3</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ 121,255	₩ 338,101
ePyeonghansang Daejeon station Centum Vista	December 2022	June 2026	33.35	226,951	193,218	64,384	63,859	53,683
Nokbeon-dong Mixed-Use building	April 2023	February 2025	35.22	29,720	25,220	8,882	8,882	5,819
Elif Mia station Complex 1	May 2023	August 2026	18.33	61,562	39,511	7,229	7,229	5,323
Elif Mia station Complex 2	May 2023	August 2026	17.62	155,141	102,705	18,088	18,088	12,866
Gireum-dong Neighborhood Commercial Facilities	July 2023	December 2023	100.00	27,580	27,580	27,580	27,580	1,832
Gwacheon Sangsang Xi tower B	January 2021	May 2023	100.00	266,691	239,568	232,962	26,633	138,460
Goyang Hyangdong district knowledge industry center <sup>4</sup>	March 2021	July 2023	100.00	541,142	502,255	482,560	93,965	313,982
Total				₩ 2,111,843	₩ 1,878,027	₩ 1,589,631	₩ 367,491	₩ 870,066

<sup>1</sup>Includes the expected sales value for commercial buildings, efficiency apartments and the Knowledge Industry Center that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

<sup>2</sup>This is the amount after deducting prepayment discounts, etc. from the total sales contract value.

<sup>3</sup>Excludes cumulative cost for common infrastructure, amounting to ₩ 227,608 million.

<sup>4</sup>Sales revenue for the year ended December 31, 2023, excludes sales revenue of DNC Deogeun Co., Ltd. which was incurred before the Group acquiring control over the entity.

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2022				
				Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative)	Revenue (period) <sup>2</sup>	Cost (cumulative) <sup>3</sup>
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	83.52	₩ 803,056	₩ 750,352	₩ 626,691	₩ 381,817	₩ 282,858
ePyeonghansang Daejeon station Centum Vista	December 2022	June 2026	3.07	226,951	17,066	525	525	413
Gwacheon Sangsang Xi tower B	January 2021	May 2023	87.76	239,568	239,568	206,328	131,075	119,621
Total				₩ 1,269,575	₩ 1,006,986	₩ 833,544	₩ 513,417	₩ 402,892

<sup>1</sup>Includes the expected sales value for commercial buildings, efficiency apartments that are scheduled to be recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer.

<sup>2</sup>Excludes ₩ 4,208 million of sales revenue of Suwon Hwaseo Park Prugio, since the construction has been completed and the pre-sales contract is in progress as of December 31, 2022.

<sup>3</sup>Excludes cumulative cost for common infrastructure, amounting to ₩ 102,090 million.

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

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

(in millions of Korean won)

Construction project	2023			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots <sup>1</sup>	Advanced receipts for sale in lots <sup>2</sup>
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 708,687	₩ 39,500	₩ 241
ePyeonhansesang Daejeon station				
Centum Vista	64,384	23,852	41,250	718
Nokbeon-dong Mixed-Use building	8,882	-	8,882	-
Elif Mia station Complex 1	7,229	4,815	2,505	91
Elif Mia station Complex 2	18,088	12,529	5,782	223
Gireum-dong Neighborhood Commercial Facilities	27,580	27,580	-	-
Gwacheon Sangsang Xi tower B	232,962	232,918	44	-
Goyang Hyangdong district knowledge industry center	482,560	481,579	981	-
Total	₩ 1,589,631	₩ 1,491,960	₩ 98,944	₩ 1,273

<sup>1</sup>As of December 31, 2023, contract assets unclaimed to customers are ₩ 58,406 million, and it will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

<sup>2</sup>Includes advanced receipts for the option contract (balcony) in relation to the main construction, which is recognized using the percentage-of-completion method.

(in millions of Korean won)

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

<sup>1</sup>As of December 31, 2022, contract assets unclaimed to customers are ₩ 341,992 million, and it will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

<sup>2</sup>Includes advanced receipts for the option contract (balcony) in relation to the main construction, which is recognized using the percentage-of-completion method.

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

(c) No material changes in the estimated total contract revenues and total contract costs have occurred during the year ended December 31, 2023, except for Suwon Hwaseo Prugio Briciel and the Knowledge Industry Center at Goyang Hyangdong district. In the case of Suwon Hwaseo Prugio Briciel, the estimated total contract cost decreased by ₩ 10,712 million as compared to that of December 31, 2022, and in the case of the Knowledge Industry Center at Goyang Hyangdong district, the estimated total contract cost decreased by ₩ 18,434 million as compared to that of the date of acquiring control. The estimated total contract revenues and total contract costs of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2023 and subject to change in the future.

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

Construction project	2023		2022	
	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>
Suwon Hwaseo Prugio Briciel	₩ -	₩ 1,465	₩ -	₩ 3,528
ePyeonghansang Daejeon station	-	93	-	-
Centum Vista	-	322	-	-
Elif Mia station Complex 1	-	666	-	-
Elif Mia station Complex 2	-	-	-	-
Sangbong Station Ubona First Live and Four Square	6,626	774	-	3,319
Total	₩ 6,626	₩ 3,320	₩ -	₩ 6,847

<sup>1</sup>Excludes advanced receipts for the option contract (balcony) in relation to the main construction, which is recognized using the percentage-of-completion method.

(e) Advanced receipts for sale in lots are a contract liability arising from a contract with a customer. The amount recognized as revenue for the year ended December 31, 2023 in relation to contract liabilities as of January 1, 2023 is ₩ 7,851 million, and the amount recognized as revenue for the year ended December 31, 2022 in relation to contract liabilities as of January 1, 2022, is ₩ 3,131 million.

(f) As of December 31, 2023, the trade receivables for sale in lots which were classified as current receivables as they are expected to be realized within the normal operating cycle but expected to be realized after 12 months from December 31, 2023 amounts to ₩ 32,752 million.

## 25. Operating Expenses

(a) Details of expenses classified by nature, incurred for each of the two years in the period ended December 31, 2023 are as follows:

*(in millions of Korean won)*

	<b>2023</b>	<b>2022</b>
Changes in inventories	₩ (82,018)	₩ (200,461)
Raw materials etc. used and merchandise purchased	1,697,321	1,865,080
Salaries	740,091	708,379
Retirement and termination benefits	52,101	84,590
Depreciation	210,840	203,162
Amortization	30,233	22,293
Employee welfare	124,438	113,201
Advertising	307,481	311,272
Commissions	615,619	705,263
Other expenses	999,166	770,977
Total	<u>₩ 4,695,272</u>	<u>₩ 4,583,756</u>

**25. Operating Expenses (cont'd)**

(b) Details of selling, general and administrative expenses for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>	<b>2022</b>
Salaries	₩ 492,341	₩ 480,575
Retirement and termination benefits	33,940	56,857
Employee welfare	82,767	74,692
Travel expenses	23,222	19,987
Communication cost	5,899	5,804
Utilities	15,536	12,654
Taxes and dues	28,225	31,307
Supplies	6,811	6,058
Rent	18,669	19,023
Depreciation	59,996	55,238
Amortization	24,801	22,008
Repairs and maintenance	9,867	8,236
Vehicles	7,112	7,625
Insurance	3,589	2,243
Commissions	402,082	437,950
Freight and custody	68,232	69,630
Conferences	5,070	4,392
Advertising	307,362	311,178
Education and training	7,964	5,568
Prizes and rewards	2,501	2,755
Cooperation	1,265	1,841
Research and development	50,655	50,531
Impairment loss(reversal of impairment loss) on trade receivables	(17,027)	6,438
Total	₩ 1,640,879	₩ 1,692,590

## 26. Other Income and Expense

(a) Details of other income for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Gain on foreign currency transaction	₩	65,319	₩	90,589
Gain on foreign currency translation		94,191		119,766
Gain on valuation of derivatives		13,901		33,742
Reversal of impairment loss on other receivables		-		191
Gain on disposal of property, plant and equipment		4,515		3,900
Gain on disposal of intangible assets		3		1
Gain on disposal of investment properties		7,333		1,901
Gain on lease contract adjustments		367		251
Gain on disposal of equity method investments		9		192
Gain on disposal of assets held for sale		-		34,081
Gain on disposal of right-of-use assets		2		-
Miscellaneous income		15,911		15,030
Total	₩	201,551	₩	299,644

(b) Details of other expense for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Loss on foreign currency transaction	₩	37,246	₩	35,693
Loss on foreign currency translation		98,696		69,643
Loss on disposal of subsidiary		-		43
Loss on valuation of derivatives		21,214		65,277
Loss on impairment of other receivables		3,576		-
Loss on disposal of property, plant and equipment		3,230		1,627
Loss on impairment of property, plant and equipment		9,633		2,316
Loss on disposal of right-of-use assets		167		-
Loss on disposal of intangible assets		392		438
Loss on impairment of intangible assets		826		410
Loss on impairment of investment properties		-		21,928
Loss on disposal of investment properties		86		731
Loss on disposal of assets held for sale		-		1,218
Donations		7,062		9,254
Loss on lease contract adjustments		25		8
Miscellaneous loss		11,869		22,043
Total	₩	194,022	₩	230,629

## 27. Finance Income and Costs

(a) Details of finance income and costs for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Finance income:				
Interest income <sup>1</sup>	₩	74,685	₩	36,784
Dividend income		23,092		27,280
Gain on valuation of financial assets measured at fair value through profit or loss		41,126		67,349
Gain on disposal of financial instruments		33		-
Total finance income	₩	138,936	₩	131,413
Finance costs:				
Interest expense	₩	45,706	₩	34,772
Loss on valuation of financial assets measured at fair value through profit or loss		21,936		42,468
Other finance costs		172		10,300
Total finance costs	₩	67,814	₩	87,540
Net finance income	₩	71,122	₩	43,873

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

(b) Details of interest income included in finance income for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Deposits	₩	35,555	₩	17,003
Trade and other receivables		4,192		4,684
Long-term deposits		34,863		15,097
Others		75		-
Total	₩	74,685	₩	36,784

(c) Details of interest expense included in finance cost for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Borrowings and bond	₩	8,995	₩	3,092
Trade and other payables		6,189		1,398
Lease liabilities		1,477		792
Others		29,045		29,490
Total <sup>1</sup>	₩	45,706	₩	34,772

<sup>1</sup> ₩ 5,606 million and ₩ 1,922 million of capitalized borrowing costs on qualifying assets are excluded from interest expense for each of the two years in the period ended December 31, 2023 respectively.

## 28. Income Tax Expense and Deferred Tax Asset

(a) Details of income tax expense for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		<b>2023</b>		<b>2022</b>
Current tax on profits for the year	₩	343,242	₩	400,898
Adjustments with respect to past income taxes, etc.		(5,464)		10,554
Increase/decrease from temporary differences		(12,341)		6,783
Effects of income tax on non-recirculation income		(6,601)		(2,633)
Income tax expense	₩	318,836	₩	415,602

(b) Details of the relationship between income tax expense and accounting profit for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		<b>2023</b>		<b>2022</b>
Profit before income tax expense	₩	1,234,012	₩	1,420,929
Tax rate (%)		25.97		28.13
Tax expense at domestic rates applicable to profits in the respective countries		320,457		399,800
Adjustments:				
Non-taxable income		(3,604)		(343)
Expenses not deductible for tax purposes		2,230		9,594
Changes in unrecognized amount of deferred tax due to temporary differences, etc.		17,176		13,649
Tax credit		(16,309)		(19,033)
Adjustments with respect to past income taxes		(5,464)		10,554
Effects of corporate earnings circulation tax		(6,601)		(2,633)
Others		10,951		4,014
Income tax expense	₩	318,836	₩	415,602
Average effective tax rate (%)		25.84		29.25

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

(c) Details of current and deferred income tax related to items recognized outside profit or loss for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	<b>2023</b>	<b>2022</b>
Current tax:		
Capital changes in equity method	₩ 166	₩ 38
Consideration for conversion right	(1,436)	-
Subtotal	₩ (1,270)	₩ 38
Deferred tax:		
Loss on valuation of financial assets at fair value through other comprehensive income or loss	₩ (6,936)	₩ (1,778)
Remeasurement element of net defined benefit liabilities	10,550	(21,431)
Subtotal	₩ 3,614	₩ (23,209)
Total	₩ 2,344	₩ (23,171)

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

(d) Changes in deferred income tax assets (liabilities) for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Reflected in profit or loss	Reflected in other comprehensive income (loss) and others	Ending balance
Accumulated depreciation	₩ 29,780	₩ 3,486	₩ -	₩ 33,266
Loss allowance	51,971	164	-	52,135
Financial assets measured at fair value through other comprehensive income or loss (profit or loss)	10,062	3,394	(6,936)	6,520
Accrued expenses	61,685	4,346	-	66,031
Defined benefit liabilities	9,786	2,919	10,550	23,255
Treasury shares	(9,068)	34	-	(9,034)
Investments in subsidiaries	(276,833)	(3,637)	-	(280,470)
Advanced depreciation provision	(9,640)	37	-	(9,603)
Others	6,716	1,598	(1,436)	6,878
Total	₩ (125,541)	₩ 12,341	₩ 2,178	₩ (111,022)

(in millions of Korean won)

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

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

(e) Details of deductible temporary differences, unused tax losses and unused tax credit not recognized as deferred tax assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	<b>2023</b>		<b>2022</b>	
Deductible temporary differences	₩	561,818	₩	564,867
Unused tax losses		121,745		151,456
Unused tax credit		3,185		304
Total	₩	686,748	₩	716,627

(f) The expiry period for net operating losses not recognized as deferred tax assets as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	<b>2023</b>		<b>2022</b>	
	<b>Unused tax losses</b>	<b>Unused tax credits</b>	<b>Unused tax losses</b>	<b>Unused tax credits</b>
Within 1 year	₩ 19,032	₩ 251	₩ 47,384	₩ -
1 ~ 2 years	6,990	52	18,877	251
2 ~ 3 years	17,473	161	7,418	52
Over 3 years	78,250	2,721	77,777	1
Total	₩ 121,745	₩ 3,185	₩ 151,456	₩ 304

(g) The amount of temporary differences to be added but not recognized as deferred tax liabilities in relation to investments in subsidiaries and associates and equity investments in joint ventures is ₩ 1,053,219 million and ₩ 1,047,256 million as of December 31, 2023 and 2022, respectively.

## 29. Earnings Per Share

(a) The relationship between EPS and accounting profit or loss for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won, Korean won, and shares)</i>		2023	2022
Profit for the year from continuing operations attributable to owners of the Parent Company	₩	909,847	₩ 1,024,375
Loss for the year from discontinued operation attributable to owners of the Parent Company		(7,185)	(8,590)
Total	₩	902,662	₩ 1,015,785
Weighted average number of ordinary shares outstanding (in shares)		115,096,170	119,657,375
Basic and diluted EPS for continuing operations (in Korean won)		7,905	8,561
Basic and diluted EPS for discontinued operation (in Korean won)		(62)	(72)
Total	₩	7,843	₩ 8,489

(b) The basis for calculating the weighted average number of ordinary shares outstanding for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in shares)</i>		2023		
	Date	Number of shares	Days	Weighted number of shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	137,292,497	365	50,111,761,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(21,012,574)	365	(7,669,589,510)
Acquisition and retirement of treasury shares	Aug. 4, etc. ~ Dec. 31	(3,470,000)	101~150	(432,070,000)
Total				42,010,101,895
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				115,096,170

  

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

### 30. Related Parties

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

Type	Name of entity	Location	Percentage of ownership (%)	
			2023	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	51.01	56.74
	INNODIS Co., Ltd. <sup>1</sup>	Korea	19.64	19.64
	SJ BIO MED Co., Ltd. <sup>1,4</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>5</sup>	Korea	50.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	-
	KB KT&G New Growth Fund 1 <sup>8</sup>	Korea	66.67	-
Joint ventures	KORAMCO Europe Private RelT 3-2 Fund <sup>6</sup>	Germany	51.35	51.35
	Starfield Suwon, Inc	Korea	50.00	50.00
Others	GL Donuimun D&C Co., Ltd. <sup>7</sup>	Korea	-	-
	HN D&C Co., Ltd. <sup>7</sup>	Korea	-	-

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

<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>As of December 31, 2023, reporting of business closure and liquidation procedures are in progress.

<sup>5</sup>The Group acquired 50% of equity shares in Mirae Asset KT&G Investment Fund I during the year ended December 31, 2022, and classified the shares as investments in associates.

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

<sup>7</sup>The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party of the Group as the Group acquired DNC Deogeun Co., Ltd. as its subsidiary during the year ended December 31, 2023.

<sup>8</sup>Although the Group's ownership percentage for the invested company exceeds 50%, the Group classified the ownership as investment in associates as the Group does not have control over related activities and may exercise significant influence on the invested company by participating on the company's investment decision-making board.

### 30. Related Parties (cont'd)

(b) The Group conducts transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	2023		2022	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	KOCREF 36 REIT	₩ 1,200	₩ -	₩ 1,200	₩ -
	KOCREF 41 REIT	2,087	-	1,646	-
	AndaStation Professional Investment Private REIT No.1	954	-	954	-
	Kiwoom Milestone Private REIT No.16 <sup>1</sup>	-	-	1,399	-
	INNODIS Co., Ltd.	-	270	-	722
	LSK Global Pharma Service Co., Ltd.	-	128	-	128
	KORAMCO Europe Private REIT 3-2 Fund	-	-	1,298	-
Joint ventures	Starfield Suwon, Inc.	7	-	-	68
	Others				
	GL Donuimun D&C Co., Ltd.	398	-	-	-
	HN D&C Co., Ltd.	69	-	-	-
	Total	₩ 4,715	₩ 398	₩ 6,497	₩ 918

<sup>1</sup>The Group excluded the entity from its related parties, as the entity was sold to the third-party for the year ended December 31, 2022.

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

(in millions of Korean won)

Type	Name of entity	2023		2022	
		Receivables	Payables	Receivables	Payables
Associates	AndaStation Professional Investment Private REIT No.1	₩ 481	₩ -	₩ 481	₩ -
	INNODIS Co., Ltd.	-	-	-	35
Joint ventures	Starfield Suwon Inc.	8	37	70	-
Others	GL Donuimun D&C Co., Ltd.	30,000	759	-	-
	HN D&C Co., Ltd.	9,000	16	-	-
	Total	₩ 39,489	₩ 812	₩ 551	₩ 35

<sup>1</sup>Presented in the gross amount before deducting loss allowance of ₩ 3,483 million as of December 31, 2023.

### 30. Related Parties (cont'd)

(d) Details of fund transactions with related parties for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	2023			2022		
		Equity investment	Loan	Equity recovery	Equity investment	Equity recovery	
Associates	KOCREF 41 REIT	₩ -	₩ -	₩ -	₩ 29,489	₩ 12,279	
	Cheongna Medipolis PFV Co., Ltd.	83,978	-	-	-	-	
	Kiwoom Milestone Private REIT No. 16 <sup>1</sup>	-	-	-	-	30,603	
	Mirae Asset KT&G Investment Fund I	5,000	-	-	5,000	-	
	KB KT&G New Growth Fund 1	3,000	-	-	-	-	
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	105	-	-	-	-	
Joint ventures	Starfield Suwon Inc.	100,000	-	-	-	-	
	KORAMCO Europe Private REIT 3-2 Fund	-	-	32	-	-	
	Others	-	-	-	-	-	
Others	KORAMCO Ocheon PFV Co., Ltd. <sup>1</sup>	-	-	-	-	24,353	
	KORAMCO Amsa PFV Co., Ltd. <sup>2</sup>	-	-	-	-	1,749	
	GL Donuimun D&C Co., Ltd.	-	30,000	-	-	-	
	HN D&C Co., Ltd.	-	9,000	-	-	-	
Total		₩ 192,083	₩ 39,000	₩ 32	₩ 34,489	₩ 68,984	

<sup>1</sup>The Group excluded the entity from its related parties, as the entity was sold to the third-party for the year ended December 31, 2022.

<sup>2</sup>Since the entity completed liquidation for the year ended December 31, 2022, it is excluded from related parties.

(e) There are no payment guarantees provided between or among the related parties.

(f) The Group currently operates Starfield Suwon Inc. after having established the joint venture with Shinsegae Property Inc. 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 Inc.'s operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party shall have the pre-emptive right to purchase the shares and selectively exercise its joint put-option rights.

(g) The Group has entered into a contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2023, a capital contribution has been completed. Furthermore, the equity shares shall not be transferred without approval of Incheon Free Economic Zone and all the shareholders.

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

(i) As of December 31, 2023, the Group has entered into a capital call agreement in relations 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.

**30. Related Parties (cont'd)**

(j) The Group has entered into a capital contribution agreement in relations to Mirae Asset KT&G Investment Fund I and KB KT&G New Growth Fund 1, with the ceiling of ₩ 28,000 million. As of December 31, 2023, the remaining contribution amount is ₩16,000 million, and the detailed timeline for contribution is yet to be determined (see Note 33 (d)).

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

(l) As of December 31, 2023, The Group's holdings in KORAMCO Banpo PFV Co., Ltd. are pledged as a collateral for a PF loan of KORAMCO Banpo PFV Co., Ltd. (see Note 33 (c)).

(m) On November 23, 2023, the Group was ordered to pay the sewage fee of ₩ 6,350 million for 1 block of Daeyupyeong District by Suwon City, and Starfield Suwon Inc. completed the payment (see Note 33 (d)).

(n) Key management personnel compensation for each of the two years in the period ended December 31, 2023 are as follows:

*(in millions of Korean won)*

	<b>2023</b>		<b>2022</b>	
Long (short)-term employee benefits	₩	21,091	₩	19,631
Retirement benefits		2,249		2,456
Total	₩	23,340	₩	22,087

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

In relation to financial instruments, the Company is exposed to market risk, credit risk and liquidity risk. The purpose of risk management of the Group is to identify potential risks affecting the financial performance of the Group and to reduce, eliminate and avoid them to an acceptable level. The Group prepares and operates the companywide 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 Group's management continuously reviews compliance with risk management policies and procedures and limits on risk exposure. The Group's overall financial risk management strategy is the same as the previous fiscal year.

#### (a) Market risk

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

#### ① Currency risk

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

The carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩ 2,482,127	₩ 136,464	₩ 1,866,741	₩ 87,990
EUR	4,255	34,121	1,686	43,407
Others	52,043	15,788	13,587	23,591
Total	₩ 2,538,425	₩ 186,373	₩ 1,882,014	₩ 154,988

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩ 235,205	₩ (235,205)	₩ 172,703	₩ (172,703)

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

#### ② Price risk

The Group is exposed to other price risks related to fluctuations of fair values and future cash flows of assets measured at fair value through other comprehensive income or loss, 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 of the listed stocks the Group invests in. Material investments in the Group's portfolio are individually managed, for which acquisitions and disposals are required to be approved by the Group management.

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)	2023		2022	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	₩ (822)	₩ 822	₩ 3,313	₩ (3,313)

#### ③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of December 31, 2023, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

#### (b) Credit risk

The Group is exposed to credit risk that one of the contracting parties to the financial instrument may incur financial losses to the other party due to the failure of performing its obligations. To manage such credit risk, the Group 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.

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

The carrying amount of a financial asset indicates the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

		2023		2022
Cash and cash equivalents (excluding cash on hand) <sup>1</sup>	₩	1,031,893	₩	1,062,549
Other financial assets		378,565		243,901
Financial assets measured at fair value through profit or loss <sup>1</sup>		687,388		1,051,441
Trade and other receivables		1,656,209		1,636,987
Long-term deposits		1,479,737		1,437,130
Derivative assets		7,751		23,069
Total	₩	5,241,543	₩	5,455,077

<sup>1</sup>As of December 31, 2022, money market trust amounting to ₩ 337,906 million classified as cash equivalents are included in the financial assets at fair value through profit or loss.

#### (c) Liquidity risk

The Group is exposed to liquidity risk that will be difficult to meet its obligations related to financial liabilities that are settled by delivering cash etc., or other financial assets. To manage liquidity risk, the management of the Group establishes short and mid-to-long term financial management plan and continuously analyzes and reviews the cash outflow budget and actual cash outflows to respond to the maturity of financial liabilities and financial assets. Management of the Group determines that the financial liabilities are redeemable through cash flows from operating activities and cash inflows from financial assets.

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

		2023					
Carrying amount	Contractual cash flow	Remaining maturity of contract					
		Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years		
Short-term borrowings	₩ 61,576	₩ 79,522	₩ 157	₩ 79,365	₩ -	₩ -	
Current portion of long-term borrowings	27,521	28,779	1,572	27,207	-	-	
Trade and other payables	1,284,892	1,321,538	1,252,384	27,013	27,562	14,579	
Lease liabilities	46,478	48,868	5,848	14,189	27,861	970	
Long-term borrowings and bond	469,813	541,580	4,843	14,100	522,637	-	
Non-controlling interest liability	17,821	17,821	-	-	14,783	3,038	
Total	₩ 1,908,101	₩ 2,038,108	₩ 1,264,804	₩ 161,874	₩ 592,843	₩ 18,587	

(in millions of Korean won)

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

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

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

As of December 31, 2023, the Group provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of Suwon Hwaseo Prugio Briciel and ePyeonhansesang Daejeon station Centum Vista, etc. (guarantee limit: ₩ 91,063 million, remaining contract maturity: 1 ~ 3 years) and has recognized a financial guarantee provision liability of ₩ 44 million (2022: ₩ 134 million) (see Notes 19 (f) and 33 (d)).

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

(d) The carrying amounts of each category of financial instruments as of December 31, 2023 and 2022, are summarized as follows:

(in millions of Korean won)

	2023		2022	
Financial assets:				
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩	687,388	₩	1,051,441
Financial assets measured at fair value through other comprehensive income or loss		233,058		206,494
Derivative assets		7,751		23,069
Financial assets measured at amortized cost				
Cash and cash equivalents <sup>1</sup>		1,031,953		1,063,112
Other financial assets		378,565		243,901
Trade and other receivables		1,656,209		1,636,987
Long-term deposits		1,479,737		1,437,130
Subtotal		4,546,464		4,381,130
Total financial assets	₩	5,474,661	₩	5,662,134
Financial liabilities:				
Financial liabilities measured at amortized cost				
Short-term borrowings	₩	61,576	₩	72,629
Current portion of long-term borrowings		27,521		4,126
Long-term borrowings and bond		469,813		78,808
Trade and other payables		1,284,893		1,101,926
Lease liabilities		46,478		37,609
Liabilities for non-controlling interests		17,821		27,769
Subtotal		1,908,102		1,322,867
Total financial liabilities	₩	1,908,102	₩	1,322,867

<sup>1</sup>As of December 31, 2022, money market trust worth ₩ 337,906 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

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

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

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

(in millions of Korean won)		2023			
		Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩	687,388	₩ -	₩ 299,638	₩ 387,750
Financial assets measured at fair value through other comprehensive income or loss		233,058	223,553	-	9,505
Derivative assets		7,751	-	7,751	-
Total financial assets	₩	928,197	₩ 223,553	₩ 307,389	₩ 397,255

  

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

<sup>1</sup>As of December 31, 2022, money market trust and others amounting to ₩ 337,906 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

There is no movement between the levels of the fair value hierarchy for each of the two years in the period ended December 31, 2023.

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

As of December 31, 2023 and 2022, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. The changes in Level 3 fair value for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023		2022	
Beginning balance	₩	367,456	₩	319,482
Acquisition		64,931		85,224
Disposal		(28,915)		(18,847)
Transfers		-		(28,300)
Changes in fair value		(6,217)		9,897
Ending balance	₩	397,255	₩	367,456

(f) Details of net gain or loss by each financial instrument category for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

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	₩ -	₩ -	₩ -	₩ 74,685	₩ -	₩	74,685
Dividend income	12,809	10,283	-	-	-		23,092
Gain or loss on valuation	19,191	-	(7,312)	-	-		11,879
Gain or loss on disposal	33	-	-	-	-		33
Gain on adjustment on leases	-	-	-	-	342		342
Interest expense	-	-	-	-	(45,706)		(45,706)
Reversal of impairment loss	-	-	-	13,450	-		13,450
Other financial expense	-	-	-	-	(172)		(172)
Total	₩ 32,033	₩ 10,283	₩ (7,312)	₩ 88,135	₩ (45,536)	₩	77,603
Other comprehensive income before tax:							
Net change in fair value	₩ -	₩ 26,565	₩ -	₩ -	₩ -	₩	26,565
Total	₩ -	₩ 26,565	₩ -	₩ -	₩ -	₩	26,565

(in millions of Korean won)

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

### 32. Capital Management

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

The Group manages capital on a capital basis with net liabilities (assets) deducting cash and cash equivalents from the borrowings, and the overall capital management policy is the same as the previous fiscal year. Details on the Group's capital structure as of December 31, 2023 and 2022, are as follows:

*(in millions of Korean won)*

	<b>2023</b>		<b>2022</b>	
Total borrowings	₩	558,910	₩	155,563
Less: Cash and cash equivalents		(1,031,953)		(1,401,018)
Less: Current other financial assets		(294,103)		(201,075)
Less: Current financial instruments measured at fair value through profit or loss		(342,933)		(393,106)
Net liabilities (assets)	₩	(1,110,079)	₩	(1,839,636)
Total equity	₩	9,294,935	₩	9,358,580

### 33. Contingent Liabilities and Commitments

#### (a) Litigation cases

As of December 31, 2023, the Group has 18 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 72,316 million. It is not possible to reasonably predict the impact of the outcome of pending litigation as of December 31, 2023, on the consolidated financial statements of the Group as of December 31, 2023.

#### (b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of December 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	87,686
Derivatives trading <sup>1</sup>	KB Kookmin Bank and five others	USD	214,016	10,374
Trade receivables factoring agreement	Hana Bank	KRW	5,000	839
Others	Korea Development Bank and seven others	KRW	1,042,457	182,367
	Hana Bank Bahrain branch	USD	4,500	4,500

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

As of December 31, 2023, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 115,100 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

### 33. Contingent Liabilities and Commitments (cont'd)

#### (c) Payment guarantees and collaterals

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

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

Provider	Currency	Limit	Details
Korea Housing & Urban Guarantee Corporation	KRW	118,597	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	17,082	License guarantee, etc.
Hana Bank	KRW	100	Refund debt payment guarantee
GL Industrial Development Co., Ltd. and one individual	KRW	49,800	Joint guarantee
ARCH and one other	USD	79	License board payment guarantee
Ameria Bank	USD	500	Trade receivable payment guarantee
Garanti Bank and one other	TRY	23,000	Payment guarantee on customs, etc.
Hana Bank	USD	2,000	Performance and tender guarantee related to exporting reconstituted tobacco leaves
Alfa Bank and one other	RUB	2,719,283	Trade receivable payment guarantee

As of December 31, 2023, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Group has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Group to other parties as of December 31, 2023 and 2022, are as follows:

(in millions of Korean won or thousands of Russian Ruble)

Guarantee user	Guaranteed by	Currency	2023		2022		Details of guarantee
			Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	KRW	76,720	9,160	76,720	52,530	Loan guarantee for the intermediate payment of off-plan sales construction <sup>1</sup>
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	KRW	8,000	515	-	-	
Korea Special Sales Financial Cooperative Association Registered Agency	Korea Special Sales Financial Cooperative Association	KRW	502	-	882	-	Payment guarantee for deductibles and others of branch
Buyer of Goyang Hyangdong district knowledge Industry center <sup>2</sup>	Kookmin Bank and one other	KRW	6,343	5,286	-	-	Loan guarantee for the intermediate payment of off-plan sales construction
Marisana Enterprises Limited	Alfa Bank	RUB	14,384	14,384	-	-	Payment guarantee for rent

<sup>1</sup>The amount guaranteed by Korea Housing & Urban Guarantee Corporation (80%) from the guarantee limit as described in the intermediate payment loan agreement is excluded from the amount.

<sup>2</sup>The above intermediate payment loan was not repaid by the loan maturity date, resulting in trigger clause in accordance with the intermediate payment loan business agreement with the financial institutions. Financial institutions may request cancellation, termination, or subrogation of loan debt for sales contracts in which the above reasons for trigger clause have occurred, and the joint guarantor has the obligation to repay the sales contract holder's interim payment loan obligation with top priority.

### 33. Contingent Liabilities and Commitments (cont'd)

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

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

<i>(in millions of Korean won)</i>		Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩	23,433	₩ 10,000	₩ 15,600	KB Kookmin Bank	Long term borrowings
		46,580	27,500	44,400	Korea Development Bank	Long term borrowings and limit loan
		16,739	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
		29,417	-	2,400	Korea Development Bank	Collateral for limit loan agreement
		2,757	10	30,000	Hana Bank	Facility loan
Investment properties		422,872	20,523	26,729	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts
Other financial assets and other receivables		77,382	44,000	52,800	KB Kookmin bank and one other	Short-term borrowings
		5,203	-	5,203	Korea Land & Housing Corporation	Establishment of a pledge for property development
		597	597	597	Samsung Fire & Marine Insurance	Establishment of a pledge for leasehold deposits
		600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
		200	-	110	Hana Bank	Innergin Mall payment guarantee
Financial assets measured at fair value through profit or loss		4,960	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia
Pledge of Profit Rights		-	152,100	182,520	Shinhan Bank and two others (1st tier), OK Savings Bank and 7 others (2nd tier), Daesang Construction (3rd tier)	Collateral for project financing
Investments in Associates		2,163	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>
Total	₩	632,903	₩ 267,730	₩ 395,665		

<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.

### 33. Contingent Liabilities and Commitments (cont'd)

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

(in millions of Korean won)

		2023	2022
Other financial assets	Establishment of a pledge for property development	₩ 5,203	₩ 10,310
	Collateral for unsecured site	-	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.	424	417
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	-
	Innergin Mall payment guarantee	110	-
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	4,960	-
Financial assets measured at fair value through profit or loss	Establishment of a pledge to savings	4,765	1,680
Cash and cash equivalents			
	Total	₩ 116,659	₩ 114,557

As of December 31, 2023, cash and cash equivalents and short-term financial instruments of ₩140,531 million held by the Group are deposited in a trust account in accordance with the managed land trust contract and fund management entrustment contract.

The contracted amount for the acquisition of major items of property, plant and equipment that have not yet been incurred as of December 31, 2023 is ₩ 378,653 million.

#### (d) Others

Each year, the Group deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Group inflicts damage on tobacco consumers due to any illegal activities committed by the Group and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩ 1,479,737 million in long-term deposits for MSA Escrow Fund as of September 30, 2023 (as of December 31, 2022: ₩ 1,437,130 million), and they consist of US Treasury bond, and demand deposits.

The Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of December 31, 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 ₩ 105,725 million and ₩ 37,295 million, respectively (as of December 31, 2022: ₩ 112,930 million and ₩ 27,725 million, respectively).

### 33. Contingent Liabilities and Commitments (cont'd)

As of December 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. after having established the joint venture with Shinsegae Property Inc. under 50:50 ratio for the year ended December 31, 2023. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc'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.

On November 23, 2023, the Group was ordered to pay a sewage fee of ₩ 6,350 million for 1 block of Daeyupyeong District by Suwon City, and Starfield Suwon Inc. completed the payment.

As of December 31, 2023, the Group has entered into a capital call agreement in relations to the Group's overseas real estate funds. The agreement might have a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

The Group has entered into a capital contribution agreement in relations to the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1, Smilegate New Deal Fund, etc., with the ceiling of ₩ 154,623 million. As of December 31, 2023, the remaining contribution amount is ₩ 62,954 million, and the detailed timeline for contribution is yet to be determined.

The Group has entered into a contribution agreement in relations to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2023, a capital contribution has been completed. Furthermore, the equity shares shall not be transferred without the approval of Incheon Free Economic Zone and all the shareholders.

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

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 City 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. In addition, the Group is obliged to donate a portion of the building to Gwacheon City.

### 33. Contingent Liabilities and Commitments (cont'd)

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

As of December 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 (ePyeonhansesang Daejeon station Centum Vista, 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 sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district are completed in September 2023, additional expected costs due to fulfilment of infrastructure-related obligations are being reflected in construction costs.

In relation to the sales project of Elif Mia station Complex 1 and 2, the Group has an obligation to sell a portion of the residential and commercial facilities built by the Group at a low price and to donate roads to Seoul-City.

As of December 31, 2023, in relation to the Daejeon Station Centum Vista sales project, the Group has agreed with the constructor (DL Construction Co., Ltd.) to compensate for the liabilities incurred by the contractor due to termination of the contract with the sub-subsidiary for the amount of ₩ 6,074 million loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.

During the year ended December 31, 2022, the Group has reached agreement with Bando Engineering & Construction Co., Ltd. to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, under the agreement. For prompting the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until the point of completion. The construction was completed in October 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of December 31, 2023.

During the year ended December 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, debt repayment and other management-related business support.



### 33. Contingent Liabilities and Commitments (cont'd)

As of December 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 Parent Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of December 31, 2023.

The Parent Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of December 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 there in cannot be reasonably estimated as of December 31, 2023.

Pillar 2 legislation has been enacted or substantially enacted in some of the countries in which the Group operates. The Pillar 2 legislation will go into effect in the Group's fiscal year beginning on January 1, 2024. The Group has assessed its potential exposure to Pillar 2 corporate income tax as it falls within the scope of the enacted or substantially enacted Pillar 2 legislation. The assessment of potential exposure to Pillar 2 corporate income tax was based on the latest tax returns, the country level reporting, and financial statements of the Group's entities. The Group expects its exposure to Pillar 2 corporate income taxes in these countries to be immaterial.

According to the project finance loan agreement for the Gangnam Station business complex development project as of December 31, 2023, in the event of a trigger clause, such as a failure to pay the loan principal and interest, the Group may lose all rights related to the project and take any action, including transferring all rights related to the project to a person designated by the agent financial institution.

### 34. Cash Flows

(a) Details of cash generated from operations for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>		<b>2022</b>	
Profit for the year	₩	922,361	₩	1,005,327
Operating profit from continuing operations		929,546		1,013,917
Operating loss from discontinued operation		(7,185)		(8,590)
Adjustments:				
Employee welfare		10,540		1,423
Retirement benefits		43,000		55,802
Loss on valuation or obsolescence of inventories		8,338		8,670
Depreciation		210,840		203,162
Amortization		30,233		22,293
Impairment loss (reversal of impairment loss)				
on trade and other receivables		(13,202)		5,419
Loss on foreign currency translation		98,696		69,643
Loss on valuation of derivatives		21,214		65,277
Loss on disposal of property, plant and equipment		3,230		1,627
Loss on impairment of property, plant and equipment		9,633		2,316
Loss on disposal of intangible assets		392		438
Loss on impairment of intangible assets		826		410
Loss on disposal of investment properties		86		731
Loss on impairment of investment properties		-		21,928
Loss on disposal of right-of-use assets		167		-
Loss on disposal of assets held for sale		-		1,218
Loss on disposal of investments in subsidiaries		-		43
Other expenses, etc.		4,958		24,795
Finance cost		67,641		87,540
Share based payment expense		158		-
Income tax expense		318,836		415,602
Gain on foreign currency translation		(94,191)		(119,766)
Gain on valuation of derivatives		(13,901)		(33,742)
Gain on disposal of property, plant and equipment		(4,515)		(3,900)
Gain on disposal of intangible assets		(3)		(1)
Gain on disposal of investment property		(7,333)		(1,901)
Gain on disposal of assets held for sale		-		(34,081)
Gain on disposal of investments in associates and joint ventures		(9)		(192)
Other income, etc.		(8,354)		(8,476)
Finance income		(139,103)		(131,413)
Increase of investments in associates and joint ventures due to share of net gain/loss		(9,610)		(29,370)

**34. Cash Flows (cont'd)**

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Changes in working capital:		
Decrease (increase) in trade and other receivables	8,711	(548,904)
Decrease (increase) in derivatives	8,006	(54,931)
Decrease (increase) in inventories	18,985	(98,362)
Decrease (increase) in accrued tobacco excise and other taxes	(54,045)	38,811
Increase in advance payments	(88,946)	(60,649)
Decrease (increase) in prepaid expenses	20,485	(8,667)
Increase in trade and other payables	338,069	544,836
Increase (decrease) in advance receipts	(5,840)	3,114
Decrease in tobacco excise and other taxes payable	(28,357)	(42,321)
Increase (decrease) in provision for site restoration	(84)	72
Decrease in net defined benefit liabilities	(31,630)	(93,530)
Cash generated from operations	₩ 1,646,282	₩ 1,310,291

(b) Material transactions without cash inflow and outflow for each of the two years in the period ended December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<b>2023</b>	<b>2022</b>
Reclassification of property, plant and equipment to investment properties	₩ 13,722	₩ 39,968
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	194,478	137,797
Increase or decrease in other payable related to the acquisition of property, plant and equipment	22,766	50,274
Reclassification of investment properties to inventories	56,959	80,807

**34. Cash Flows (cont'd)**

(c) Changes in liabilities due to financing activities for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ 20,008	₩ (776,434)	₩ 756,426	₩ -
Short-term borrowings (including current portion of long-term borrowings)	76,755	(26,670)	39,012	89,097
Long-term borrowings	78,808	379,261	11,744	469,813
Lease liabilities	37,609	(25,326)	34,195	46,478
Total	₩ 213,180	₩ (449,169)	₩ 841,377	₩ 605,388
	TRUE	TRUE	TRUE	TRUE

(in millions of Korean won)

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

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

### 35. Non-Controlling Interests

(a) For subsidiaries in which the Group hold a material portion of non-controlling interests, details of their profit or loss and net profit and accumulated non-controlling interests allocated to the Group's non-controlling interests for each of the two years in the period ended December 31, 2023 are as follows:

		2023							
(in millions of Korean won)		Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Changes in scope of consolidation	Net profit or loss distributed to non-controlling interests	Others		Ending balance of accumulated non-controlling interests	
Yungjin Pharm. Co., Ltd.	47.55	₩	42,733	₩	-	₩	(1,842)	₩	45,470
Cosmococ Co., Ltd.	1.44		203		-		8	(2)	209
DNC Deogeun Co., Ltd.	61.75		-	50,096	22,931	-			73,027
Edn the pine central Seocho Co., Ltd.	21.35		-	3,760	(1,398)	(538)			1,824
Total		₩	42,936	₩	53,856	₩	19,699	₩	120,530

  

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

**35. Non-Controlling Interests (cont'd)**

(b) The condensed cash flows information for subsidiaries in which the Group hold a material portion of non-controlling interests for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023			
	Yungjin Pharm. Co., Ltd.	Cosmococ Co., Ltd.	DNC Deogeun Co., Ltd.	Edn the pine central Seocho Co., Ltd.
Cash flows from operating activities	₩ (10,224)	₩ 3,229	₩ 90,534	₩ (286)
Cash flows from investing activities	(13,017)	(1,358)	(84,327)	-
Cash flows from financing activities	29,766	(1,619)	(12)	(1,243)
Net increase(decrease) in cash and cash equivalents	₩ 6,525	₩ 252	₩ 6,195	₩ (1,529)
Cash and cash equivalents at January 1	683	2,713	-	-
Changes in scope of consolidation	-	-	21,035	1,668
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	(3)	-	-
Cash and cash equivalents at December 31	₩ 7,208	₩ 2,962	₩ 27,230	₩ 139

	2022	
	Yungjin Pharm. Co., Ltd.	Cosmococ Co., Ltd.
Cash flows from operating activities	₩ (11,610)	₩ 2,542
Cash flows from investing activities	(13,352)	(1,140)
Cash flows from financing activities	25,180	(2,395)
Net increase (decrease) in cash and cash equivalents	₩ 218	₩ (993)
Cash and cash equivalents at January 1	465	3,711
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	(5)
Cash and cash equivalents at December 31	₩ 683	₩ 2,713

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

### 36. Discontinued Operations

As of December 14, 2021, the Group has discontinued KT&G USA Corporation business as the Group determined it necessary to revisit the entire global business strategy, following the enhanced US tobacco regulations and growing market competition which warrant reconsideration of conducting the US business segment.

(a) Details of profit or loss from discontinued operation for each of the two years in the period ended December 31, 2023 are as follows:

(in millions of Korean won)

	2023	2022
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(6,848)	(10,387)
Operating loss	(6,848)	(10,387)
Other income	267	3,831
Other expense	(770)	(2,034)
Finance income	166	-
Finance costs	-	-
Loss on discontinued operation, before tax	(7,185)	(8,590)
Income tax expense	-	-
Loss on discontinued operation, after tax	(7,185)	(8,590)
Exchange differences on translating foreign operations	(516)	(1,528)
Total comprehensive loss on discontinued operation	₩ (7,701)	₩ (10,118)

Profit or loss from discontinued operation for each of the two years in the period ended December 31, 2023, are entirely attributed to the Parent Company.

**36. Discontinued Operations (cont'd)**

(b) Details of cash flows from discontinued operation for each of the two years in the period ended December 31, 2023 are as follows

*(in millions of Korean won)*

	<b>2023</b>		<b>2022</b>
Cash flows from operating activities	₩ (4,468)	₩	(15,724)
Cash flows from investing activities	118		260
Cash flows from financing activities	(949)		(1,116)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	384		2,546
	₩ (4,915)	₩	(14,034)

### 37. Business Combination

(a) The Parent Company acquired 38.25% (shares with voting rights: 51.00%) of the issued share capital of DNC Deogeun Co., Ltd. and obtained control on March 22, 2023, to generate revenue from real estate development and sales business, such as the Knowledge Industry Center at Goyang Hyangdong district and others.

In relation to the business combination above, the consideration paid and the amount of assets acquired, and liabilities assumed at the acquisition date, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>
Consideration transferred	
Cash <sup>1</sup>	₩ 35,000
Assets acquired	
Cash and cash equivalents	21,035
Trade receivables	81,975
Inventories	17,197
Other assets	13,111
Liabilities assumed	
Borrowings	(31,548)
Trade payables	(16,623)
Other liabilities	(51)
Fair value of identifiable net assets	₩ 85,096
Non-controlling interest <sup>2</sup>	₩ 50,096

<sup>1</sup>Acquisition cost of ₩ 552 million are excluded from the consideration transferred.

<sup>2</sup>The non-controlling interest was calculated by excluding the dividend amount expected to be distributed to the Group according to the number and details of class shares stated in the Articles of Incorporation.

Sales and profit recognized for the year ended December 31, 2023, do not include amounts incurred prior to the business combination. Had the business combination occurred from January 1, 2023, the Group's sales would have increased by ₩ 60,033 million and profit for the period would have increased by ₩ 12,634 million.

**37. Business Combination (cont'd)**

(b) The Parent Company acquired 78.65% of the issued share capital of Edn the pine central Seocho Co., Ltd. and obtained control on November 22, 2023, to generate revenue from Gangnam station business complexes real estate development.

In relation to the business combination above, the consideration paid, the carrying amount of assets acquired, and liabilities assumed at the acquisition date, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>
Consideration transferred	
Cash	₩ 35,000
Assets acquired	
Cash and cash equivalents	1,667
Inventories	88,712
Other assets	10,165
Liabilities assumed	
Borrowings	(61,023)
Trade payables and other payables	(761)
Fair value of identifiable net assets	₩ 38,760
Non-controlling interest <sup>1</sup>	₩ 3,760

<sup>1</sup>The non-controlling interest was calculated by excluding the amount of dividends and distribution of residual property expected to be distributed to the Group according to the number and details of class shares stated in the Articles of Incorporation.

Sales and profit recognized for the year ended December 31, 2023, do not include amounts incurred prior to the business combination. Had the business combination occurred from January 1, 2023, the Group's sales would have increased by ₩ 136 million and profit for the period would have decreased by ₩ 3,452 million.



### 38. Events After the Reporting Period

On February 16, 2024, the Parent Company has retired 3,500,000 treasury shares with the resolution of the Board of Directors on February 7, 2024. On February 21, 2024, the Parent Company disposed 6,120 treasury shares for the purpose of paying CEO's management performance bonus with the resolution of the board of directors on February 14, 2024.

The Parent Company has contributed USD 40,000 thousand to KT&G Kazakhstan LLP, and EUR 32,350 thousand and USD 9,581 thousand to KT&G Tutun Mamulleri Sanayi ve Ticaret A.S, respectively.

In February 2024, the Parent Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., and Cosmococ Co., Ltd., to provide operating funds, debt repayment and other management-related business support.

Gwacheon Sang Sang PFV Co., Ltd., a subsidiary of the Parent Company, changed the existence period of Gwacheon Sang Sang PFV Co., Ltd. from 6 years to 10 years from the date of registration of establishment under the Articles of Incorporation at an extraordinary general meeting of shareholders on January 5, 2024.

PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, was established by investing IDR 9,997 million in TSPM Flavor & Fragrance, a subsidiary, in January 2024, and additionally invested IDR 207,375 million in February 2024.

### **Audit opinion on internal control over financial reporting**

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") and the consolidated financial statements of the Group for the year ended December 31, 2023 in accordance with the Article 8 of the *Act on External Audit of Stock Companies*.

Attachments:

1. Independent auditor's report on internal control over financial reporting
2. Management's report on the effectiveness of internal control over financial Reporting

## **Independent auditor's report on internal control over financial reporting**

(English Translation of a Report Originally Issued in Korean)

### **KT&G Corporation**

#### **The Shareholders and Board of Directors**

### **Opinion on internal control over financial reporting**

We have audited the internal control over financial reporting ("ICFR") of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") based on the Conceptual Framework for Design and Operation of ICFR established by the Operating Committee of ICFR in Korea (the "ICFR Committee") as of December 31, 2023.

In our opinion, the Group's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2023, in accordance with the Conceptual Framework for Design and Operation of ICFR.

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the consolidated statement of financial position as of December 31, 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a material accounting policy information, of the Group, and our report dated March 4, 2024 expressed an unqualified opinion thereon.

### **Basis for opinion on ICFR**

We conducted our audit in accordance with KSA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of ICFR section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of ICFR in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of management and those charged with governance for internal control over consolidated financial reporting**

Management is responsible for designing, implementing and maintaining an effective ICFR, and for assessing the effectiveness of ICFR included in the accompanying Management's report on the effectiveness of internal control over financial reporting.

Those charged with governance have the responsibilities for overseeing the Group's ICFR process.

### **Auditor's responsibilities for the audit of internal control over consolidated financial reporting**

Our responsibility is to express opinion on the Group's ICFR based on our audit. We conducted our audit in accordance with KSA. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective ICFR was maintained in all material respects.

An audit of the ICFR involves performing procedures to obtain audit evidence as to whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit also includes testing and evaluating the design and operation of ICFR based on obtaining an understanding of ICFR and the assessed risk.

### **ICFR Definition and Inherent Limitations**

A company and its subsidiaries' ICFR is implemented by those charged with governance, management, and other employees and is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"). A company and its subsidiaries' ICFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company and its subsidiaries; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with KIFRS, and that receipts and expenditures of the company and its subsidiaries are being made only in accordance with authorizations of management and directors of the company and its subsidiaries; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company and its subsidiaries' assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, ICFR may not prevent, or detect misstatements of the consolidated financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that ICFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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



March 4, 2024

This report is effective as of March 4, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the Group's ICFR and may result in modifications to this report.

## Management's report on the effectiveness of internal control over financial reporting

### ICFR Operating Status Report by CEO

To the Shareholders, Board of Directors and Audit Committee of KT&G Company

We, as the Chief Executive Officer and the Internal Accounting Manager KT&G Company (the Company), assessed the operating status of the Company's Internal Control over Consolidated Financial Reporting (ICFR) for the year ending December 31, 2023.

Design and operation of ICFR is the responsibility of the Company's management, including the Chief Executive Officer and the Internal Accounting Manager.

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in Consolidated financial statements to ensure preparation and disclosure of reliable financial information.

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee) as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' established by the ICFR Committee.

Based on our assessment, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2023, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

February 6, 2024

Bok In Baek  
Chief Executive Officer

Yong Bum Kim  
Internal Accounting Manager

