



KT&G Corporation and its subsidiaries

Interim consolidated financial statements
for each of the six-month periods ended June 30, 2024 and 2023
With the independent auditor's review report

Table of contents

Report on review of interim consolidated financial statements

	Page
Interim consolidated financial statements	
Interim consolidated statements of financial position	1
Interim consolidated statements of comprehensive income	3
Interim consolidated statements of changes in equity	4
Interim consolidated statements of cash flows	5
Notes to the interim consolidated financial statements	6

Report on review of interim consolidated financial statements

(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors KT&G Corporation

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of June 30, 2024, and the related interim consolidated statements of comprehensive income for each of the three-month and six-month periods ended June 30, 2024 and 2023, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for each of the six-month periods ended June 30, 2024 and 2023 and a summary of material accounting policy information and other explanatory information.

Management's responsibility for the interim consolidated financial statements

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

Auditor's responsibility

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

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

Conclusion

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

Other matter

We have audited the consolidated statement of financial position as of December 31, 2023, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended (not presented herein) in accordance with KSA, and our report dated March 4, 2024 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2023, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

August 9, 2024

This review report is effective as of August 9, 2024, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modifications to this review report.

KT&G Corporation and its subsidiaries

Interim consolidated financial statements **For each of the six-month periods ended June 30, 2024 and 2023**

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

Kyung-Man Bang
Chief Executive Officer
KT&G Corporation

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

KT&G Corporation and its subsidiaries
Interim consolidated statements of financial position
As of June 30, 2024 (Unaudited) and December 31, 2023



(in millions of Korean won)

	Notes	June 30, 2024	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents	21,22	₩ 1,024,164	₩ 1,031,953
Current other financial assets	21,22	396,672	294,103
Current financial assets measured at fair value through profit or loss	21	467,035	342,933
Trade and other receivables	5,15,20,21	1,505,541	1,506,539
Derivative assets	21,22	228	7,751
Inventories	6,22	2,832,599	2,763,769
Refund assets and others		853	820
Accrued tobacco excise and other taxes		461,795	324,366
Advanced payments	22	172,925	79,451
Prepaid expenses		108,825	66,689
Total current assets		6,970,637	6,418,374
Non-current assets			
Long-term other financial assets	21,22	84,638	84,462
Long-term deposits in MSA Escrow Fund	21,22	1,589,644	1,479,737
Long-term financial assets measured at fair value through profit or loss	21,22	340,451	344,455
Long-term trade and other receivables	5,21	144,845	149,670
Long-term financial assets measured at fair value through other comprehensive income or loss	21,22	228,611	233,058
Investments in associates and joint ventures	4,7,20,22	471,020	471,327
Property, plant and equipment	8,22	2,374,476	2,096,467
Intangible assets	9	174,598	175,028
Investment properties	10,22	872,011	1,018,434
Right-of-use assets	11	48,351	49,029
Long-term advance payments	22	143,205	105,725
Long-term prepaid expenses		14,357	12,663
Deferred tax assets	19	46,496	74,949
Net defined benefit assets	13	42,210	59,074
Total non-current assets		6,574,913	6,354,078
Total assets		₩ 13,545,550	₩ 12,772,452
Liabilities			
Current liabilities			
Short-term borrowings	12,21,22	₩ 76,865	₩ 61,576
Current portion of long-term borrowings	12,21,22	50,962	27,521
Trade and other payables	20,21,22	1,790,286	1,684,673
Current lease liabilities	21	19,259	18,702
Derivative liabilities	21,22	6,041	-
Advanced receipts	15	31,571	17,203
Current refund liabilities and provisions	14,22	34,519	33,213
Current tax liabilities	19	130,082	191,016
Tobacco excise and other taxes payables		774,011	638,510
Total current liabilities		2,913,596	2,672,414
Non-current liabilities			
Long-term borrowings and bonds	12,21,22	764,770	469,813
Long-term trade and other payables	21,22	66,777	58,390
Long-term lease liabilities	21	25,054	27,776
Long-term advance receipts	15	9,029	4,177
Net defined benefit liabilities	13	40,754	36,038
Long-term refund liabilities and provisions	14,22	7,569	5,117
Deferred tax liabilities	19	221,239	185,971
Non-controlling interests liabilities	21	7,677	17,821
Total non-current liabilities		1,142,869	805,103
Total liabilities		₩ 4,056,465	₩ 3,477,517

KT&G Corporation and its subsidiaries
Interim consolidated statements of financial position, continued
As of June 30, 2024 (Unaudited) and December 31, 2023



(in millions of Korean won)

	Notes	June 30, 2024	December 31, 2023
Equity			
Share capital	₩	954,959	₩ 954,959
Other capital surplus		5,076	4,946
Treasury shares		(1,030,541)	(1,236,933)
Gain on sale of treasury shares		529,029	528,894
Reserves		7,162,077	7,230,300
Retained earnings		1,748,745	1,692,239
Equity attributable to owners of the Parent Company		9,369,345	9,174,405
Non-controlling interest		119,740	120,530
Total equity	₩	9,489,085	₩ 9,294,935
Total liabilities and equity	₩	13,545,550	₩ 12,772,452

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

KT&G Corporation and its subsidiaries

Interim consolidated statements of comprehensive income

For each of the three-month and six-month periods ended June 30, 2024 and 2023 (Unaudited)



(in millions of Korean won)

Notes	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Continuing operations				
Sales	4,15 \	1,423,774 \	2,716,035 \	1,335,995 \
Cost of sales		(709,652)	(1,357,705)	(685,101)
Gross profit		714,122	1,358,330	650,894
Selling, general and administrative expenses	16,20	(392,129)	(799,767)	(404,788)
Operating profit	4	321,993	558,563	246,106
Other income	17,20,21	129,215	272,874	49,653
Other expenses	17,20,21	(38,396)	(79,567)	(53,833)
Finance income	18,20,21	37,116	77,099	40,137
Finance costs	18,20,21	(15,907)	(28,861)	(5,138)
Share of net profit (loss) of associates and joint ventures	7	4,620	9,712	(856)
Loss arising from net monetary assets		(6,461)	(10,065)	(408)
Profit before income tax		432,180	799,755	275,661
Income tax expense	19	(117,936)	(197,859)	(72,414)
Profit from continuing operations		314,244	601,896	203,247
Discontinued operation				
Loss from discontinued operation	24	(1,484)	(3,523)	(1,321)
Profit for the period	\	312,760 \	598,373 \	201,926 \
Other comprehensive income (loss) for the period after income tax				
Items that will not be reclassified to profit or loss				
Re-measurements of net defined benefit liabilities	\	(5,609) \	(5,828) \	(14,654) \
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	21	735	9,741	2,627
Equity changes in equity method	7	1	(7)	4
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations	7	37,169	42,290	(20,535)
Equity changes in equity method	7	103	196	(105)
Total comprehensive income for the period	\	345,159 \	644,765 \	169,263 \
Profit for the period is attributable to:				
Owners of the Parent Company				
Profit from continuing operations	\	314,320 \	602,705 \	202,119 \
Loss from discontinued operations	24	(1,484)	(3,523)	(1,321)
Profit attributable to owners of the Parent Company		312,836	599,182	200,798
Non-controlling interests				
Profit (loss) from continuing operations		(76)	(809)	1,128
Profit (loss) from discontinued operations	24	-	-	-
Profit (loss) attributable to non-controlling interests		(76)	(809)	1,128
Total	\	312,760 \	598,373 \	201,926 \
Total comprehensive income (loss) for the period attributable to:				
Owners of the Parent Company				
Profit from continuing operations	\	348,176 \	652,459 \	169,670 \
Loss from discontinued operations	24	(2,952)	(6,904)	(1,564)
Total comprehensive income attributable to owners of the Parent Company		345,224	645,555	168,106
Non-controlling interests				
Profit (loss) from continuing operations		(65)	(790)	1,157
Profit (loss) from discontinued operations	24	-	-	-
Total comprehensive income (loss) attributable to non-controlling interests		(65)	(790)	1,157
Total	\	345,159 \	644,765 \	169,263 \
Earnings (losses) per share (in Korean won)				
Basic and diluted				
From continuing operations	\	2,731 \	5,237 \	1,738 \
From discontinued operations		(13)	(31)	(11)
	\	2,718 \	5,206 \	1,727 \

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

KT&G Corporation and its subsidiaries



Interim consolidated statements of changes in equity For each of the six-month periods ended June 30, 2024 and 2023 (Unaudited)

(in millions of Korean won)

	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
Balance as of January 1, 2023	₩ 954,959	₩ 4,498	₩ (1,236,933)	₩ 528,894	₩ 6,812,286	₩ 2,251,940	₩ 9,315,644	₩ 42,936	₩ 9,358,580
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss) for the period:	-	-	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(16,026)	(16,026)	67	(15,959)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	7,214	-	7,214	-	7,214
Exchange differences on translating foreign operations	-	-	-	-	(4,131)	-	(4,131)	-	(4,131)
Equity changes in equity method	-	-	-	-	(97)	-	(97)	-	(97)
Subtotal other comprehensive income (loss) for the period	-	-	-	-	2,986	(16,026)	(13,040)	67	(12,973)
Total comprehensive income (loss) for the period	-	-	-	-	2,986	455,274	453,260	4,921	453,181
Transactions with owners of the Parent Company:	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(581,400)	(581,400)	-	(581,400)
Transfer to other reserve	-	-	-	-	407,601	(407,601)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	50,096	50,096
Share options	-	369	-	-	-	-	369	-	369
Total Transactions with owners of the Parent Company	-	369	-	-	407,601	(989,001)	(581,031)	50,096	(530,935)
Balance as of June 30, 2023	₩ 954,959	₩ 4,867	₩ (1,236,933)	₩ 528,894	₩ 7,222,873	₩ 1,718,213	₩ 9,192,873	₩ 97,953	₩ 9,290,826
Balance as of January 1, 2024	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,299	₩ 1,692,240	₩ 9,174,405	₩ 120,530	₩ 9,294,935
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	-
Profit (loss) for the period	-	-	-	-	-	-	-	(809)	598,373
Other comprehensive income (loss) for the period:	-	-	-	-	-	-	-	-	-
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(5,850)	(5,850)	22	(5,828)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	9,741	-	9,741	-	9,741
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(12,305)	12,305	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	42,293	-	42,293	(3)	42,290
Equity changes in equity method	-	-	-	-	189	-	189	-	189
Subtotal other comprehensive income (loss) for the period	-	-	-	-	39,918	6,455	46,373	19	46,392
Total comprehensive income (loss) for the period	-	-	-	-	39,918	605,637	645,555	(790)	644,765
Transactions with owners of the Parent Company:	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(451,240)	(451,240)	-	(451,240)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-	-	-
Retirement of treasury shares	-	-	206,032	-	-	(206,032)	-	-	-
Share options	-	130	360	135	-	-	625	-	625
Total Transactions with owners of the Parent Company	-	130	206,392	135	(108,140)	(649,132)	(450,615)	-	(450,615)
Balance as of June 30, 2024	₩ 954,959	₩ 5,076	₩ (1,030,541)	₩ 529,029	₩ 7,162,077	₩ 1,748,745	₩ 9,369,345	₩ 119,740	₩ 9,489,085

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

KT&G Corporation and its subsidiaries

Interim consolidated statements of cash flows

For each of the six-month periods ended June 30, 2024 and 2023 (Unaudited)



(in millions of Korean won)

	Notes	June 30, 2024	June 30, 2023
Net cash flows provided by operating activities		₩ 553,683	₩ 131,731
Cash generated from operations	23	744,539	358,984
Income taxes paid		(190,856)	(227,253)
Net cash flows used in investing activities		(469,634)	(71,219)
Interest received		55,146	29,664
Dividends received		9,743	14,718
Decrease in other financial assets		227,756	101,839
Decrease in current financial assets measured at fair value through profit or loss		53,765	219,250
Decrease in long-term financial assets measured at fair value through profit or loss		15,976	3,911
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		18,774	-
Decrease in long-term deposits in MSA Escrow Fund		-	2
Disposal of property, plant and equipment		10,519	4,753
Disposal of intangible assets		125	2
Disposal of investment properties		16,289	8,348
Disposal of assets held for sale		181	188
Disposal of investments in associates and joint ventures		23,738	-
Receipt of government grant		-	332
Collection of loans		13,081	12,400
Collection of guarantee deposits		792	405
Increase in other financial assets		(329,908)	(162,807)
Increase in current financial assets measured at fair value through profit or loss		(165,563)	(1,834)
Increase in long-term financial assets measured at fair value through profit or loss		(21,437)	(7,503)
Increase in long-term deposits in MSA Escrow Fund		-	(1,540)
Acquisition of property, plant and equipment		(335,369)	(196,116)
Acquisition of intangible assets		(14,730)	(23,752)
Acquisition of investment properties		(4,611)	(6,754)
Acquisition of right-of-use assets		(1,366)	(1,618)
Acquisition of investments in associates and joint ventures		(15,000)	(5,000)
Increase in loans		(26,823)	(45,756)
Increase in guarantee deposits		(712)	(386)
Net cash inflows due to changes in scope of consolidation		-	(13,965)
Net cash flows used in financing activities		(168,775)	(576,616)
Dividends paid		(451,240)	(581,400)
Interest paid		(33,707)	(4,707)
Repayment of lease liabilities		(11,731)	(11,403)
Repayment of borrowings		(131,754)	(649,787)
Proceeds in borrowings		160,567	670,681
Proceeds from issuance of bond		298,990	-
Increase in non-controlling interests liabilities		100	-
Net decrease in cash and cash equivalents		(84,726)	(516,104)
Cash and cash equivalents at the beginning of the period		1,031,953	1,401,018
Effect of exchange rate fluctuation on cash and cash equivalents		76,937	4,121
Cash and cash equivalents at the end of the period		₩ 1,024,164	₩ 889,035

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

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of June 30, 2024, the Parent Company has three manufacturing plants, including the Daejeon plant, and 14 local headquarters and 101 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Cheonan printing plant for manufacturing of packaging material. The headquarters of the Parent Company is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon.

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

The shareholders approved a plan to separate the Parent Company into two companies by 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 45,400,000 and 35,816,658 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.

1.2 Consolidated Subsidiaries

Details of consolidated subsidiaries as of June 30, 2024 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%) ¹	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	June 30, 2024	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	June 30, 2024	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	June 30, 2024	Korea
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	100.00	June 30, 2024	Turkiye
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	June 30, 2024	Brazil
	KT&G Pars	Manufacturing and selling tobaccos	99.99	June 30, 2024	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	June 30, 2024	Russia
	KT&G USA Corporation	Selling tobaccos	100.00	June 30, 2024	USA
	Cosmococ Co., Ltd.	Manufacturing and selling cosmetics	98.56	June 30, 2024	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	June 30, 2024	Singapore
	SangSang Stay Inc.	Hotel	100.00	June 30, 2024	Korea
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	June 30, 2024	Russia
	Gwacheon SangSang PFV Inc.	Real estate development and sales business	51.00	June 30, 2024	Korea
	KT&G Taiwan Corporation	Selling tobaccos	100.00	June 30, 2024	Taiwan
	Mastern No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	June 30, 2024	Korea
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	June 30, 2024	Kazakhstan
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	June 30, 2024	Kazakhstan
	DNC Deogeun Co., Ltd. ²	Real estate development and sales business	38.25	June 30, 2024	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	June 30, 2024	Korea
	Cheongna Medipolis Development Co., Ltd.	Real estate service business	66.67	June 30, 2024	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	June 30, 2024	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	June 30, 2024	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	June 30, 2024	China
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	June 30, 2024	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	June 30, 2024	USA
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	June 30, 2024	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	June 30, 2024	Japan
Cosmococ Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	June 30, 2024	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur ³	Manufacturing and selling tobaccos	99.99	June 30, 2024	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	June 30, 2024	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Selling tobaccos	99.99	June 30, 2024	Indonesia

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

²The 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 voting rights of DNC Deogeun Co., Ltd. The Parent Company classified the shares as investments in subsidiaries as the Parent Company holds substantial decision-making right over related activities that have significant impact on the profit or losses of the DNC Deogeun Co., Ltd. through the general shareholders' meeting and Board of Directors of DNC Deogeun Co., Ltd.

³A portion of PT Trisakti Purwosari Makmur is held by the Parent Company.

1.2 Consolidated Subsidiaries (cont'd)

During the six-month period ended June 30, 2024, the Parent Company acquired 272,490,615 shares (₩ 59,692 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. through issuance of new stocks and additional equity securities of ₩ 75,085 million of KT&G Kazakhstan LLP.

During the six-month period ended June 30, 2024, the Parent Company newly established Cheongna Medipolis Development Co., Ltd. through capital investment of 40,000 shares (₩ 200 million).

During the six-month period ended June 30, 2024, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, acquired 217,372,000 shares (₩ 18,563 million) of PT TSPM FLAVOR AND FRAGRANCE through capital investment.

During the year ended December 31, 2023, the Parent Company acquired 75,344,496 shares (₩ 25,624 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S., 6,000,000 shares (₩ 30,000 million) of SangSang Stay Inc., 1,408,940 shares (₩ 65,000 million) of Tae-A Industry Co., Ltd. and additional equity securities of KT&G Kazakhstan LLP amounting to ₩ 19,722 million through paid-in capital increase.

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 acquired 3,825 shares (₩ 35,552 million) of preferred stocks with voting rights of DNC Deogeun Co., Ltd. and 7,000,000 shares of 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, merged PT KT&G Indonesia on the merger date of January 1, 2023 for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia. 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.

2. Material Accounting Policies

(1) Basis of Preparation

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

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

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

The Group 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 2024 reporting period. As of June 30, 2024, these amendments and interpretations do not have a material impact on the interim consolidated financial statements.

(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.

(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.

2. Material Accounting Policies (cont'd)*(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.

(d) Amendments to KIFRS 1001 Presentation of Financial Statements – Disclosure of Virtual Assets

These amendments mandate entities to disclose material information for the financial statement users such as the impact of holding and issuing virtual assets on their accounting policies and financial statements. The entities should separately disclose information related to holding virtual assets, holding them on behalf of the customers, and issuing them.

(3) Material Accounting Policies

Material accounting policies and method of computation used in the preparation of the interim consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2023, except for the changes due to the application of amendment and enactments of standards described in Note 2. (2) and the one described below.

(a) Income Tax Expense

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

3. Material Accounting Estimates and Assumptions

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

Material accounting estimates and assumptions applied in the preparation of these interim consolidated financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2023, except for the estimates used to determine the income tax expense.

4. Operating Segment

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

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

(b) Details of segment information on sales and operating profit for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	2,000,748	651,660	132,779	174,265	2,959,452	(243,417)	2,716,035
Intersegment sales	(154,262)	(78,164)	(7,126)	(3,865)	(243,417)	243,417	-
External sales	1,846,486	573,496	125,653	170,400	2,716,035	-	2,716,035
Operating profit (loss) ¹	530,705	14,988	7,535	8,495	561,723	(3,160)	558,563
Depreciation and amortization	84,178	23,507	15,592	5,344	128,621	(6,225)	122,396

¹Other income or expenses item not part of the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

(in millions of Korean won)

	June 30, 2023						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	1,871,090	720,633	225,522	147,190	2,964,435	(232,770)	2,731,665
Intersegment sales	(125,410)	(75,727)	(27,980)	(3,653)	(232,770)	232,770	-
External sales	1,745,680	644,906	197,542	143,537	2,731,665	-	2,731,665
Operating profit ¹	460,947	34,100	45,448	749	541,244	21,409	562,653
Depreciation and amortization	78,529	24,559	14,939	5,406	123,433	(4,837)	118,596

¹Other income or expenses item not part of the operating profit 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 when it transfers goods and services over a period or at a point in time in major business lines. The categories of major business lines are consistent with the revenue disclosure information per reporting segment in accordance with KIFRS 1108.

(in millions of Korean won)

		June 30, 2024		June 30, 2023	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Revenue recognized at a point in time:					
Tobacco	Wholesale and retail	₩ 979,903	₩ 1,825,358	₩ 877,155	₩ 1,730,399
	Direct sales	9,973	21,128	10,909	15,281
Ginseng	Wholesale and retail	184,384	336,248	163,968	365,816
	Direct sales	80,692	237,248	96,841	279,090
Others	Wholesale and retail	87,838	169,297	73,008	142,483
	Direct sales	494	1,103	432	1,054
Real estate	Sales	3,525	10,272	-	-
	Subtotal	1,346,809	2,600,654	1,222,313	2,534,123
Revenue recognized over time:					
Real estate	Sales	48,259	60,850	88,352	148,102
	Rental	28,706	54,531	25,330	49,440
	Subtotal	76,965	115,381	113,682	197,542
	Total	₩ 1,423,774	₩ 2,716,035	₩ 1,335,995	₩ 2,731,665

(d) Segment information on assets and liabilities as of June 30, 2024 and December 31, 2023 is as follows:

(in millions of Korean won)

(in millions of Korean won)		June 30, 2024													
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated							
Assets:															
Segment assets	₩	7,834,860	₩	2,081,350	₩	1,379,250	₩	255,278	₩	11,550,738	₩	(2,963,510)	₩	8,587,228	
Investments in associates and joint ventures		-		-		453,071		17,949		471,020		-		471,020	
Subtotal	₩	7,834,860	₩	2,081,350	₩	1,832,321	₩	273,227	₩	12,021,758	₩	(2,963,510)	₩	9,058,248	
Common assets															
Total assets														₩	13,545,550
Acquisition of non-current assets															
	₩	309,909	₩	14,788	₩	1,330	₩	9,853	₩	335,880	₩	(4,722)	₩	331,158	
Liabilities:															
Segment liabilities	₩	3,065,989	₩	207,375	₩	62,401	₩	105,184	₩	3,440,949	₩	(667,471)	₩	2,773,478	
Common liabilities															
Total liabilities														₩	4,056,465

(in millions of Korean won)

(in millions of Korean won)		December 31, 2023												
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated						
Assets:														
Segment assets	₩	7,021,732	₩	2,227,057	₩	1,373,604	₩	243,090	₩	10,865,483	₩	(2,757,145)	₩	8,108,338
Investments in associates and joint ventures		-		-		453,340		17,987		471,327		-		471,327
Subtotal	₩	7,021,732	₩	2,227,057	₩	1,826,944	₩	261,077	₩	11,336,810	₩	(2,757,145)	₩	8,579,665
Common assets														
Total assets														4,192,787
														12,772,452
Acquisition of non-current assets														
	₩	476,431	₩	80,202	₩	4,747	₩	13,665	₩	575,045	₩	(24,528)	₩	550,517
Liabilities:														
Segment liabilities	₩	2,631,990	₩	259,630	₩	51,775	₩	91,463	₩	3,034,858	₩	(532,461)	₩	2,502,397
Common liabilities														975,120
Total liabilities														3,477,517

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 six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024			June 30, 2023		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	1,755,204	960,831	2,716,035	1,896,675	834,990	2,731,665
Non-current assets	3,095,087	374,351	3,469,438	2,986,209	130,809	3,117,018

The regional information for above 'Overseas' category is not disclosed for individual country because the amount of sales or non-current assets attributable to each country are not material.

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

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2024 and 2023 (Unaudited)



5. Trade and Other Receivables

(a) Details of trade and other receivables as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,312,412	₩ 1,340	₩ 1,328,580	₩ -
Loans	65,650	93,455	58,989	87,727
Other receivables	22,711	933	30,899	2,634
Guarantee deposits	85,323	48,935	72,146	59,201
Accrued income	19,445	182	15,925	108
Total	₩ 1,505,541	₩ 144,845	₩ 1,506,539	₩ 149,670

(b) Details of allowances for doubtful accounts in relation to trade and other receivables (as a gross amount before deduction of allowances for doubtful accounts) as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,547,743	₩ 145,341	₩ 1,570,234	₩ 150,147
Allowances:				
Trade receivables	(37,529)	-	(59,446)	-
Other receivables	(4,673)	(496)	(4,249)	(477)
Subtotal	(42,202)	(496)	(63,695)	(477)
Net trade and other receivables	₩ 1,505,541	₩ 144,845	₩ 1,506,539	₩ 149,670

(c) Changes in allowance for doubtful accounts in relation to trade and other receivables for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024	June 30, 2023
Beginning balance	₩ 64,172	₩ 79,600
Reversal of impairment loss	(21,051)	(18,928)
Write off	(643)	(169)
Net exchange difference and others	220	(2)
Ending balance	₩ 42,698	₩ 60,501

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.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2024 and 2023 (Unaudited)



6. Inventories

(a) Details of inventories as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024			December 31, 2023		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 49,383	₩ (4,495)	₩ 44,888	₩ 69,582	₩ (1,963)	₩ 67,619
Finished goods	432,069	(44,789)	387,280	352,918	(39,634)	313,284
Half-finished goods and work in progress	915,610	(1,972)	913,638	1,043,034	(3,032)	1,040,002
Raw materials	944,479	(4,229)	940,250	900,339	(5,084)	895,255
Supplies	78,599	-	78,599	69,117	-	69,117
By-products	7,952	-	7,952	9,328	-	9,328
Buildings under construction	56,642	-	56,642	20,938	-	20,938
Completed buildings	123,143	-	123,143	129,941	-	129,941
Sites for construction of real estate	243,488	-	243,488	129,633	-	129,633
Goods in transit	36,821	(102)	36,719	88,652	-	88,652
Total	₩ 2,888,186	₩ (55,587)	₩ 2,832,599	₩ 2,813,482	₩ (49,713)	₩ 2,763,769

(b) The amount of loss (reversal) on valuation and obsolescence of inventories recognized for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories	₩ 1,911	₩ 2,734	₩ (111)	₩ (1,500)
Loss on obsolescence of inventories	2,959	6,659	2,916	6,092
Other expenses:				
Loss on obsolescence of inventories	38	74	244	267
Total	₩ 4,908	₩ 9,467	₩ 3,049	₩ 4,859

7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024	June 30, 2023
Beginning balance	₩ 471,327	₩ 274,534
Acquisition	15,000	5,000
Disposal	(23,738)	-
Shares of net profit or loss	9,712	(2,614)
Dividends	(1,538)	(1,987)
Reclassification ¹	-	105
Changes in equity	257	(133)
Ending balance	₩ 471,020	₩ 274,905

¹The effect of changes in scope of consolidation worth ₩ 105 million is include for the six-month period ended June 30, 2023.

8. Property, Plant and Equipment

Changes in property, plant and equipment for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Beginning balance	2,096,467	1,837,041
Acquisition ¹	347,094	142,623
Disposal/Impairment	(1,540)	(9,756)
Depreciation	(81,128)	(79,750)
Reclassification, etc. ²	13,583	(8,909)
Ending balance	<u>2,374,476</u>	<u>1,881,249</u>

¹During the six-month period ended June 30, 2024, the Group has capitalized borrowings costs amounting to ₩ 4,985 million for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.13%~5.61%.

²Consists of ₩ 178 million of transfers to investment properties for the six-month period ended June 30, 2024, and ₩ 10,689 million of transfers to investment properties and ₩ 71 million of transfers to intangible assets for the six-month period ended June 30, 2023.

9. Intangible Assets

Changes in intangible assets for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Beginning balance	175,028	167,851
Acquisition	15,405	20,986
Disposal/Impairment	(726)	(166)
Amortization	(15,305)	(14,023)
Reclassification, etc. ¹	196	1,302
Ending balance	<u>174,598</u>	<u>175,950</u>

¹Consists of ₩ 71 million which was reclassified to intangible assets from property, plant and equipment for the six-month period ended June 30, 2023.

10. Investment Properties

Changes in investment properties for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2024	June 30, 2023
Beginning balance	1,018,434	1,071,463
Acquisition ¹	5,375	4,748
Disposal/Impairment	(4,520)	(1,776)
Depreciation	(11,799)	(11,787)
Reclassification, etc. ²	(135,479)	(48,140)
Ending balance	872,011	1,014,508

¹During the six-month period ended June 30, 2024, the Group has capitalized borrowing costs amounting to ₩ 967 million for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.13%~4.45%.

²Consists of ₩ 178 million of transfers from property, plant and equipment and ₩ 135,657 million of transfers to inventories for the six-month period ended June 30, 2024. And ₩ 10,689 million of transfers from property, plant and equipment and ₩ 57,441 million of transfers to inventories for the six-month period ended June 30, 2023.

11. Right-of-use Assets

Changes in right-of-use assets for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2024	June 30, 2023
Beginning balance	49,029	40,244
Acquisition	12,684	18,498
Disposal/Changes	(468)	(517)
Depreciation	(14,164)	(13,035)
Reclassification, etc.	1,270	120
Ending balance	48,351	45,310

12. Borrowings and Bonds

(a) Details of short-term borrowings as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Lender	Annual interest rate (%)	June 30, 2024	December 31, 2023
Borrowings	Hana Bank	FTP(1 year)+1.08 ₩	- ₩	3,000
		FTP(6 months)+0.612	3,000	-
	Hana Bank Shanghai branch	LPR(1 year)-0.5	6,187	-
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	-	5,764
	KB Kookmin Bank	5.50	38,271	37,504
		MOR(6 months)+1.22	10,000	-
	Shinhan Bank	Bank Debenture (6 months)+0.25	10,000	-
		Bank Debenture (1 year)+1.05	-	10,000
	Woori Bank	5.97	4,000	-
	The JoEun MG Community Credit Cooperatives	5.50	4,907	4,808
	Subtotal		76,365	61,076
Others	Others	18.00	500	500
	Total		₩ 76,865 ₩	₩ 61,576

12. Borrowings and Bonds (cont'd)

(b) Details of current portion of long-term borrowings and long-term borrowings as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Lender	Maturity	Annual interest rate (%)	June 30, 2024	December 31, 2023
Other financial loan for working capital ¹	NH Nonghyup Bank	2025.06.22~2027.06.20	-	39,612	38,990
Financial agricultural mid-term loan ¹	NH Nonghyup Bank	2028.07.19	-	14,564	14,162
Borrowings	NH Nonghyup Bank	2028.11.21	3.00	11,212	11,060
		2028.12.27	3.00	12,065	11,891
	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67	10,000	10,000
		2026.05.07	MOR(3 months)+1.93	4,500	-
	Korea Development Bank	2025.06.23	Industrial Financial Debenture(1 year)+0.66	5,000	7,500
		2024.12.01	Industrial Financial Debenture(6 months)+1.44	20,000	20,000
	Hana Bank	2026.12.31	CD+1.881	10	10
	IM Bank	2027.05.30	MOR(6 months)+2.18	5,000	-
	Shinhan Bank	2026.05.21	6.50	6,555	3,708
	Shinhan Card Co., Ltd.	2026.05.21	Financial Debenture (3 years)+1.99	11,438	6,488
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50	14,205	13,904
	OK Savings Bank	2026.05.21	9.00	8,050	7,879
	Korea Investment Savings Bank	2026.05.21	9.00	7,103	6,952
	JT Chinae Savings Bank	2026.05.21	9.00	6,629	6,488
	The-K Savings Bank	2026.05.21	9.00	4,735	4,635
	BNK Savings Bank	2026.05.21	9.00	4,735	4,635
	Choeun Savings Bank	2026.05.21	9.00	2,840	2,781
	Insung Savings Bank	2026.05.21	9.00	1,894	1,854
	Incheon Savings Bank	2026.05.21	9.00	1,894	1,854
	Total			192,041	174,791
Current				50,962	27,521
Non-current				141,079	147,270
	Total			192,041	174,791

¹This borrowing is fund granted for contract farming under the ginseng business integration project. As a policy fund for the agriculture, forestry and fisheries industries supported by the Ministry of Agriculture, Food and Rural Affairs, its interest rate is 0% and the present value discount amount is recognized as government grants.

(c) Details of bonds as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	Issued Date	Maturity	Annual interest rate (%)	June 30, 2024	December 31, 2023
2-1 st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	100,000	100,000
2-2 nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	200,000
3-1 st non-guarantee public bonds	2024.04.25	2026.04.24	3.624	50,000	-
3-2 nd non-guarantee public bonds	2024.04.25	2027.04.23	3.763	150,000	-
3-3 rd non-guarantee public bonds	2024.04.25	2029.04.25	3.808	100,000	-
	Subtotal			600,000	300,000
	Discount on bonds			(1,601)	(835)
	Total			598,399	299,165
Current				-	-
Non-current				598,399	299,165
	Total			598,399	299,165

12. Borrowings and Bonds (cont'd)

(d) Convertible bonds

The book values of convertible bonds issued by the Group as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Face value	30,300	30,300
Redemption premium	1,234	1,234
Conversion right adjustment	(6,242)	(8,156)
Total	25,292	23,378

Details of issuance condition of convertible bonds issued by the Group as of June 30, 2024 are as follows:

<u>Classification</u>	<u>Details</u>
Type and name	1st unregistered non-guarantee private convertible bond
Underwriter	Korea Investment & Securities Co., Ltd. and 13 other underwriters
Issuing company	Yungjin Pharm. Co., Ltd.
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 \times $\frac{A+(B \times C/D)}{(A+B)}$ 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>(d) 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 22 (c), the Group provides collaterals for the above borrowings.

13. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Defined benefit plans:				
Current service cost	₩ 12,151	₩ 24,291	₩ 10,937	₩ 21,913
Net interest on net defined benefit liabilities	(193)	(399)	(1,069)	(2,136)
Past service cost and gain and loss on settlement	(18)	-	(836)	(808)
Subtotal	11,940	23,892	9,032	18,969
Defined contribution plan:				
Contributions recognized as expense	1,520	3,922	(39)	3,476
Other long-term employee benefits:				
Current service cost, etc.	6,878	8,382	2,534	3,870
Termination benefits:				
Voluntary retirements, etc.	43	1,627	8	493
Total	₩ 20,381	₩ 37,823	₩ 11,535	₩ 26,808

(b) Details of net defined benefit liabilities (assets) as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024	December 31, 2023
Present value of defined benefit obligations	\ 583,737	\ 580,538
Fair value of plan assets	(585,193)	(603,574)
Total	\ (1,456)	\ (23,036)

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



14. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,494	₩ -	₩ 1,780	₩ -
Refund liabilities	14,512	7,016	12,901	4,409
Provision for site restoration	1,635	539	1,537	680
Provision for financial guarantee	10	12	18	26
Provision for greenhouse gases	93	-	51	-
Provision for others	16,775	2	16,926	2
Total	₩ 34,519	₩ 7,569	₩ 33,213	₩ 5,117

(b) Changes in refund liabilities and provisions for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 1,089	₩ (1,375)	₩ 1,494
Refund liabilities	17,310	5,671	(1,453)	21,528
Provision for site restoration	2,217	42	(86)	2,173
Provision for financial guarantee	44	-	(22)	22
Provision for greenhouse gases	51	42	-	93
Provision for others	16,928	-	(150)	16,778
Total	₩ 38,330	₩ 6,844	₩ (3,086)	₩ 42,088

(in millions of Korean won)

	June 30, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 97	₩ (1,322)	₩ 2,947
Refund liabilities	18,309	2,650	(2,531)	18,428
Provision for site restoration	2,301	31	(153)	2,179
Provision for financial guarantee	134	-	(57)	77
Provision for greenhouse gases	194	-	(123)	71
Provision for others	15,407	573	(621)	15,359
Total	₩ 40,517	₩ 3,351	₩ (4,807)	₩ 39,061

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2024 and 2023 (Unaudited)



15. Real Estate Pre-sales Contracts

(a) Details of real estate pre-sale contracts in effect for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

June 30, 2024								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value ¹	Total sales contract value	Revenue (cumulative) ²	Revenue (period) ³	Cost (cumulative) ⁴
Suwon Hwaseo Prugio Briciel	June 2020	September 2023	100.00	803,056	747,970	747,946	-	338,101
ePyeonghansang Daejeon station Centum Vista	December 2022	June 2026	44.54	226,951	193,218	85,924	21,540	71,738
Nokbeon-dong Mixed-use building	April 2023	February 2025	55.77	29,720	25,220	14,066	5,184	9,215
Elif Mia station Complex 1	May 2023	August 2026	26.33	61,562	39,512	10,357	3,128	7,704
Elif Mia station Complex 2	May 2023	August 2026	25.40	155,141	107,098	27,144	9,056	19,574
ePyeonghansang Pyeongchon Urban Valley	April 2024	October 2026	6.15	399,856	348,757	21,462	21,462	12,937
Digital Empire Pyeongchon Biz Valley	April 2024	March 2027	8.31	352,768	5,778	480	480	325
Gwacheon Sangsang Xi tower B	January 2021	May 2023	100.00	266,691	239,568	232,962	-	138,460
Goyang Hyangdong district knowledge industry center ⁵	March 2021	July 2023	100.00	541,142	502,711	482,560	-	313,982
Total				2,836,887	2,209,832	1,622,901	60,850	912,036

¹Includes the expected sales value for commercial buildings, officetels, 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.

²This is the amount after deducting prepayment discounts from the total sales contract value.

³Excludes the revenue of ₩ 10,272 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the six-month period ended June 30, 2024.

⁴Excludes cumulative costs for common infrastructure, amounting to ₩ 228,098 million.

⁵As of June 30, 2024, the cumulative revenue and cost include the amount of revenues and costs incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

(in millions of Korean won)

June 30, 2023								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value ¹	Total sales contract value	Revenue (cumulative)	Revenue (period)	Cost (cumulative) ²
Suwon Hwaseo Prugio Briciel	June, 2020	September, 2023	92.29	₩ 803,056	₩ 750,352	₩ 692,472	₩ 65,781	₩ 313,022
ePyeonghansang Daejeon station Centum Vista	December, 2022	June, 2026	7.82	226,951	132,491	10,360	9,835	8,319
Nokbeon-dong mixed-use building	April, 2023	February, 2025	12.71	29,720	25,220	3,207	3,207	2,101
Elif Mia station Complex 1	May, 2023	August, 2026	4.29	61,529	7,106	305	305	218
Elif Mia station Complex 2	May, 2023	August, 2026	4.26	155,078	46,726	1,993	1,993	1,364
Gwacheon Sangsang Xi Tower B	January, 2021	May, 2023	100.00	267,316	239,568	232,962	26,633	138,390
Goyang Hyangdong district knowledge industry center ³	March, 2021	July, 2023	82.72	541,142	540,080	428,943	40,348	295,527
Total				₩ 2,084,792	₩ 1,741,543	₩ 1,370,242	₩ 148,102	₩ 758,941

¹Includes the expected sales value for commercial buildings, officetels, 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.

²Excludes cumulative costs for common infrastructure, amounting to ₩ 105,273 million.

³Revenue for the six-month period ended June 30, 2023 excludes the amount of revenues incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2024 and 2023 (Unaudited)



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

(b) Details of receivables and payables for real estate pre-sale contracts in effect as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

Construction project	June 30, 2024			
	Revenue (cumulative)	Cash collected, etc. (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon Hwaseo Prugio Briciel	747,946	746,809	1,142	5
ePyeonghansesang Daejeon station Centum Vista	85,924	30,262	56,377	715
Nokbeon-dong Mixed-use apartment	14,066	-	14,066	-
Elif Mia station Complex 1	10,357	4,776	5,667	86
Elif Mia station Complex 2	27,144	12,948	14,413	217
ePyeonghansesang Pyeongchon Urban Valley	21,462	34,875	-	13,413
Digital Empire Pyeongchon Biz Valley	480	578	-	98
Gwacheon Sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	1,622,901	1,545,770	91,665	14,534

¹As of June 30, 2024, contract assets due from customers are ₩ 87,269 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

²Includes advances for the option contract (balcony) in relation to main construction, which is recognized using percentage of completion method.

(in millions of Korean won)

Construction project	December 31, 2023			
	Revenue (cumulative)	Cash collected, etc. (cumulative)	Trade receivables for sale in lots ¹	Advanced receipts for sale in lots ²
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 708,687	₩ 39,500	₩ 241
ePyeonghansesang 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

¹As of December 31, 2023, contract assets due from customers are ₩ 58,406 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

²Includes advances for the option contract (balcony) in relation to main construction, which is recognized using percentage of completion method.

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the six-month period ended June 30, 2024. Estimated total contract revenue and total contract cost of the real estate pre-sale contracts in effect are based on the circumstances that have occurred until June 30, 2024, and subject to changes in the future.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



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

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of June 30, 2024 and 2023 are as follows:

Construction project	June 30, 2024		December 31, 2023	
	Trade receivables for sale in lots	Advanced receipts for sale in lots ¹	Trade receivables for sale in lots	Advanced receipts for sale in lots ¹
Suwon Hwaseo Prugio Briciel	₩ -	₩ 1,050	₩ -	₩ 1,465
ePyeonghansesang Daejeon station Centum Vista	-	105	-	93
Elif Mia Station Complex 1	-	343	-	322
Elif Mia Station Complex 2	-	2,698	-	666
Sangbong station Ubona First Live and Four Square	9,549	611	6,626	774
Total	₩ 9,549	₩ 4,807	₩ 6,626	₩ 3,320

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

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



16. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Salaries	₩ 125,614	₩ 255,045	₩ 121,230	₩ 246,881
Retirement and termination benefits	8,781	19,146	5,645	14,692
Employee welfare	24,773	42,757	20,163	36,357
Travel expenses	5,978	10,626	6,183	11,160
Communication cost	1,395	2,952	1,648	3,192
Utilities	3,190	7,759	2,737	7,168
Taxes and dues	22,726	29,325	25,045	28,903
Supplies	1,509	2,666	1,641	3,914
Rent	3,913	8,630	3,674	8,335
Depreciation	15,551	30,267	14,868	29,518
Amortization	5,933	11,859	7,041	13,859
Repairs and maintenance	2,100	4,123	1,966	3,015
Vehicles	1,714	3,327	1,734	3,424
Insurance	881	1,838	849	1,617
Commissions	86,959	185,318	96,526	212,081
Freight and custody	16,853	34,023	16,673	33,038
Conferences	1,206	2,682	1,264	2,593
Advertising	80,364	139,231	76,815	129,209
Education and training	1,665	3,228	2,232	4,154
Prizes and rewards	370	903	406	823
Cooperation	323	562	304	511
Research and development	12,998	24,945	12,427	20,956
Reversal of impairment loss on trade receivables	(32,667)	(21,445)	(16,283)	(18,865)
Total	₩ 392,129	₩ 799,767	₩ 404,788	₩ 796,535

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



17. Other Income and Expense

(a) Details of other income for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Gain on foreign currency transaction	₩ 25,881	₩ 38,683	₩ 16,276	₩ 25,681
Gain on foreign currency translation	89,970	209,496	23,537	98,903
Gain on valuation of derivatives	54	89	759	4,564
Reversal of impairment loss on other receivables	-	-	41	62
Gain on disposal of property, plant and equipment	189	325	393	1,627
Gain on disposal of intangible assets	3	4	-	-
Gain on disposal of investment properties	6,837	11,805	4,110	6,732
Gain on lease contract adjustments	131	189	185	250
Miscellaneous income	6,150	12,283	4,352	7,906
Total	₩ 129,215	₩ 272,874	₩ 49,653	₩ 145,725

(b) Details of other expense for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Loss on foreign currency transaction	₩ 7,805	₩ 15,679	₩ 3,521	₩ 13,360
Loss on foreign currency translation	17,261	33,632	31,365	41,439
Loss on valuation of derivatives	10,980	24,033	4,017	13,416
Impairment loss on other receivables	507	394	-	-
Loss on disposal of property, plant and equipment	19	87	2,539	2,715
Loss on impairment of property, plant and equipment	605	605	5,917	5,931
Loss on disposal of intangible assets	227	387	-	41
Loss on impairment of intangible assets	178	219	60	123
Loss on disposal of investment properties	-	55	-	59
Donations	730	1,876	786	1,704
Loss on lease contract adjustments	39	44	11	14
Miscellaneous loss	45	2,556	5,617	8,812
Total	₩ 38,396	₩ 79,567	₩ 53,833	₩ 87,614

18. Finance Income and Costs

Details of finance income and costs for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024		June 30, 2023	
	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Finance income:				
Interest income ¹	₩ 27,980	₩ 54,769	₩ 18,180	₩ 34,183
Dividend income	5,951	8,840	6,846	12,141
Gain on valuation of financial assets measured at fair value through profit or loss	3,167	13,472	15,112	34,929
Gain on disposal of financial instrument	18	18	-	-
Total finance income	₩ 37,116	₩ 77,099	₩ 40,138	₩ 81,253
Finance cost:				
Interest expense	₩ 8,587	₩ 18,211	₩ 5,138	₩ 26,888
Loss on valuation of financial assets measured at fair value through profit or loss	7,320	10,650	-	1,945
Total finance cost	₩ 15,907	₩ 28,861	₩ 5,138	₩ 28,833
Net finance income	₩ 21,209	₩ 48,238	₩ 35,000	₩ 52,420

¹The interest income is generated from financial instruments measured at amortized cost.

19. Income Tax Expense and Deferred Tax Asset

(a) Income tax expense is recognized based on the best estimate of weighted-average annual effective income tax rate expected for the full financial year. The average effective tax rates for each of the six-month periods ended June 30, 2024 and 2023 are 24.85% and 28.33%, respectively.

(b) Pillar Two legislation has been enacted or substantially enacted in some jurisdictions where the Group operates. According to the amendment to the Adjustment of International Taxes Act No. 19191 in the Republic of Korea, the Group expects to be subject to the application of Pillar Two Model Rules legislation starting from the fiscal year commencing on January 1, 2024. The Group is currently assessing the impact of implementing Pillar Two Model Rules on the Group, and it is expected that the Pillar Two legislation shall affect the net profits of the Group's constituent entities domiciled in certain jurisdictions where the effective tax rate of Pillar Two income tax is predicted to be less than 15%.

As of June 30, 2024, the Group estimates that the impact of Pillar Two income taxes on its consolidated financial statements will be immaterial, in accordance with its assessment result identified so far. The Group will apply the temporary exception to the recognition and disclosure of deferred income tax assets and liabilities related to Pillar Two legislation.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



20. Related Parties

(a) Details of the Group's related parties as of June 30, 2024 and December 31, 2023 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			June 30, 2024	December 31, 2023
Associates	LitePharmTech Co., Ltd. ¹	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd. ¹	Korea	18.95	18.95
	KORAMCO Dongjak PFV Co., Ltd. ¹	Korea	19.47	19.47
	KOCREF 36 REIT	Korea	21.01	21.01
	KOCREF 41 REIT	Korea	26.47	26.47
	Cheongna Medipolis PFV Co., Ltd. ²	Korea	51.01	51.01
	INNODIS CO., Ltd. ¹	Korea	19.64	19.64
	SJ BIO MED Co., Ltd. ^{1,3}	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	21.92	21.92
	Mirae Asset KT&G Investment Fund I	Korea	50.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	35.00
	KB KT&G New Growth Fund 1 ⁴	Korea	66.67	66.67
	KORAMCO Europe Private REIT 3-2 Fund ⁵	Germany	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00
Others	AndaStation Professional Investment Private REIT No. 1 ⁶	Korea	-	21.43
	Others ⁷	Korea	-	-

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

²The Group has 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.

³As of June 30, 2024, liquidation procedures are in progress.

⁴Although the Group's percentage of ownership in 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 by participating in the entity's investment decision-making authority.

⁵The 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.

⁶The Group excluded the entity from its related parties, as the entity was disposed of during the six-month period ended June 30, 2024.

⁷The Group classified the major 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.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2024 and 2023 (Unaudited)



20. Related Parties (cont'd)

(b) The Group conducts transactions with related parties, such as sales of goods and provision of services, and etc. Details of transactions with related parties for each of the three-month and six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2024				June 30, 2023			
		Sales and other income		Purchase and other expenses		Sales and other income		Purchase and other expenses	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Associates	KOCREF 36 REIT	₩ 600	₩ 600	₩ -	₩ -	₩ 600	₩ 600	₩ -	₩ -
	KOCREF 41 REIT	938	938	-	-	914	914	-	-
	INNODIS Co., Ltd.	-	-	73	147	-	-	74	123
	Cheongna Medipolis PFV Co., Ltd.	33	33	-	-	-	-	-	-
Joint venture	Starfield Suwon Inc.	-	-	26	48	-	-	-	-
Others	AndaStation Professional Investment Private REIT No. 1 ¹	-	-	-	-	473	473	-	-
	Others	1,246	2,354	-	-	-	-	-	-
Total		₩ 2,817	₩ 3,925	₩ 99	₩ 195	₩ 1,987	₩ 1,987	₩ 74	₩ 123

¹The Group excluded the entity from its related parties, as the entity was disposed of during the six-month period ended June 30, 2024.

(c) Details of account balances of receivables and payables with related parties as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2024		December 31, 2023	
		Receivables	Payables	Receivables	Payables
Joint venture	Starfield Suwon, Inc.	₩ 37	₩ 10	₩ 8	₩ 37
Others	AndaStation Professional Investment Private REIT No. 1 ¹	-	-	481	-
	Others ²	44,928	758	39,000	775
Total		₩ 44,965	₩ 768	₩ 39,489	₩ 812

¹The Group excluded the entity from its related parties, as the entity was disposed of during the six-month period ended June 30, 2024.

²Presented in the total amount of receivables before deducting loss allowance of ₩ 3,877 million (December 31, 2023: ₩ 3,483 million) as of June 30, 2024.

(d) Details of fund transactions with related parties for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	June 30, 2024			June 30, 2023		
		Equity investment	Loan	Equity recovery	Equity investment	Loan	Equity recovery
Associate	Mirae Asset KT&G Investment Fund I	₩ -	₩ -	₩ -	₩ 4,500	₩ -	₩ -
Joint venture	Starfield Suwon Inc.	15,000	-	-	-	-	-
Others	AndaStation Professional Investment Private REIT No. 1 ¹	-	-	23,738	-	-	-
	Others	-	5,870	-	-	-	-
Total		₩ 15,000	₩ 5,870	₩ 23,738	₩ 4,500	₩ -	₩ -

¹The Group excluded the entity from its related parties, as the entity was disposed of during the six-month period ended June 30, 2024.

20. Related Parties (cont'd)

(e) The Group is provided with a joint guarantee from GL Industrial Development Co., Ltd. in relation to ₩ 39,000 million of loans to related parties of DNC Deogeun Co., Ltd. (see Note 22 (c)).

(f) The Group established Starfield Suwon Inc., a 50:50 joint venture with Shinsegae Property Inc. during the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc.'s temporary operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party may elect to exercise the pre-emptive right to purchase the shares or exercise its joint put-option rights.

(g) The Group has entered into a contribution agreement in relations to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of June 30, 2024, 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. In addition, when transferring the equity shares of Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, shall also be transferred.

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

(i) As of June 30, 2024, 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.

(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 June 30, 2024, the remaining contribution amount is ₩ 16,000 million, and the detailed timeline for contribution is yet to be determined (see Note 22 (d)).

(k) The Parent Company has a joint disposal right to require other investors to dispose of their ownership under the same condition 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 of the shares by obtaining the approvals from the 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 of the shares to the Parent Company.

(l) As of June 30, 2024, 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 22 (c)).

(m) 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 during the year ended December 31, 2023 (see Note 22 (d)).

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



20. Related Parties (cont'd)

(n) Key management personnel compensations for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

		<u>June 30, 2024</u>		<u>June 30, 2023</u>
Long (short)-term employee benefits	₩	13,798	₩	10,376
Retirement benefits		<u>1,188</u>		<u>966</u>
Total	₩	<u>14,986</u>	₩	<u>11,342</u>

21. Risk Management and Fair Value of Financial Instruments

In relation to the financial instruments, the Group is exposed to the market risk, credit risk and liquidity risk. The purpose of risk management of the Group is to identify potential risks affecting the financial performance of the Group and to eliminate, avoid and reduce them to an acceptable level. The Group prepares and 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 Parent Company'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 years.

(a) Market risk

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

① Currency risk

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

② Price risk

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

21. Risk Management and Fair Value of Financial Instruments (cont'd)**③ Interest rate risk**

The Group is exposed to interest rate fluctuation risk in relation to the trade payables and other payables, borrowings 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 June 30, 2024, 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. In order to manage such credit risk, the Group's management only transacts with parties over certain level of creditworthiness, and establishes and manages the credit enhancement policies and procedures for financial assets. The Group evaluates the creditworthiness of new transaction parties using the financial information disclosed upon entering the contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Group then receives collaterals and/or payment guarantees as necessary. In addition, the Group periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay.

As of June 30, 2024 and December 31, 2023, the carrying amount of financial assets is the maximum exposure to credit risk.

(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. 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.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2024 and 2023 (Unaudited)



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

(d) Details of the carrying amounts of each category of financial instrument as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		June 30, 2024		December 31, 2023
Financial assets:				
Financial assets measured at fair value through profit or loss	₩	807,486	₩	687,388
Financial assets measured at fair value through other comprehensive income or loss		228,611		233,058
Derivative assets		228		7,751
Financial assets measured at amortized cost				
Cash and cash equivalents		1,024,164		1,031,953
Other financial assets		481,310		378,565
Trade and other receivables		1,650,386		1,656,209
Long-term deposits		1,589,644		1,479,737
Subtotal		4,745,504		4,546,464
Total financial assets	₩	5,781,829	₩	5,474,661
Financial liabilities:				
Derivative liabilities	₩	6,041	₩	-
Financial liabilities measured at amortized cost				
Short-term borrowings		76,865		61,576
Current portion of long-term borrowings		50,962		27,521
Long-term borrowings and bonds		764,770		469,813
Trade and other payables		1,384,530		1,284,893
Lease liabilities		44,313		46,478
Liabilities for non-controlling interests		7,677		17,821
Subtotal		2,329,117		1,908,102
Total financial liabilities	₩	2,335,158	₩	1,908,102

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

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

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

Details of the fair value of financial instruments measured by each hierarchy as of June 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	June 30, 2024			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	\ 807,486	-	438,044	369,442
Financial assets measured at fair value through other comprehensive income or loss	228,611	219,106	-	9,505
Derivative assets	228	-	228	-
Total financial assets	\ 1,036,325	\ 219,106	\ 438,272	\ 378,947
Derivative liabilities	\ 6,041	-	6,041	-

(in millions of Korean won)

	December 31, 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

There is no movement between the levels of fair value hierarchy during the six-month period ended June 30, 2024 and year ended December 31, 2023.

As of June 30, 2024 and December 31, 2023, 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 the discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique.

Changes in Level 3 fair value for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024	June 30, 2023
Beginning balance	₩ 397,255	₩ 366,956
Acquisition	21,735	9,837
Disposal	(34,089)	(28,075)
Changes in fair value	(995)	11,623
Others	(4,959)	-
Ending balance	₩ 378,947	₩ 360,341

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

(f) Details of net gain or loss by each financial instrument category for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	June 30, 2024					
	Financial assests measured at fair value through profit or loss	Financial assests measured at fair value through other comprehensive income or loss	Derivatives	Financial assests measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	\ - \	- \	- \	54,769 \	- \	54,769
Dividend income	4,571	4,269	-	-	-	8,840
Gain or loss on valuation	2,822	-	(23,944)	-	-	(21,122)
Gain on disposal	18	-	-	-	-	18
Interest expense	-	-	-	-	(18,211)	(18,211)
Reversal of impairment loss	-	-	-	21,051	-	21,051
Gain on lease adjustments	-	-	-	-	145	145
Total	\ 7,411 \	\ 4,269 \	\ (23,944) \	\ 75,820 \	\ (18,066) \	\ 45,490
Other comprehensive income (loss) before tax						
Net change in fair value	\ - \	14,327 \	- \	- \	- \	14,327

(in millions of Korean won)

	June 30, 2023					
	Financial assests measured at fair value through profit or loss	Financial assests measured at fair value through other comprehensive income or loss	Derivatives	Financial assests measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	\ - \	- \	- \	34,183 \	- \	34,183
Dividend income	6,066	6,074	-	-	-	12,140
Gain or loss on valuation	32,984	-	(8,852)	-	-	24,132
Interest expense	-	-	-	-	(26,888)	(26,888)
Reversal of impairment loss	-	-	-	18,928	-	18,928
Gain on lease adjustments	-	-	-	-	253	253
Total	\ 39,050 \	\ 6,074 \	\ (8,852) \	\ 53,111 \	\ (26,635) \	\ 62,748
Other comprehensive income (loss) before tax						
Net change in fair value	\ - \	9,367 \	- \	- \	- \	9,367

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued
June 30, 2024 and 2023 (Unaudited)



22. Contingent Liabilities and Commitments

(a) Litigation cases

As of June 30, 2024, the Group has 19 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 173,754 million. It is not possible to reasonably predict the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of June 30, 2024.

(b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of June 30, 2024 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank and one other	USD	211,200	73,735
Derivatives trading ¹	KB Kookmin Bank and five others	USD	218,627	11,686
Trade receivables factoring agreement	Hana Bank	KRW	5,000	1,158
Others	Korea Development Bank and six others	KRW	1,039,771	189,681
	Hana Bank Shanghai branch	CNY	32,490	32,490

¹Derivatives are composed of foreign exchange forward contracts and are held for trading as of June 30, 2024.

As of June 30, 2024, the Group has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 114,973 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Group as of June 30, 2024 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	237,581	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	19,621	License guarantee, etc.
GL Industrial Development Co., Ltd. and one individual	KRW	49,800	Joint guarantee
One individual	KRW	4,800	Joint guarantee
ARCH and one other	USD	79	License bond payment guarantee
Ameria Bank	USD	500	Trade receivables 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	5,200,000	Trade receivables payment guarantee, etc.

As of June 30, 2024, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Parent Company has a recourse liability up to the limit of TWD 200,000 thousand to Citi Bank Taiwan.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2024 and 2023 (Unaudited)



22. Contingent Liabilities and Commitments (cont'd)

Details of payment guarantees provided by the Group to other parties as of June 30, 2024 and December 31, 2023 are as follows:

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

Guarantee user	Guaranteed by	Currency	June 30, 2024		December 31, 2023		Details of guarantee
			Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	KRW	-	-	76,720	9,160	Loan guarantee for the intermediate payment of off-plan sales construction ¹
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	KRW	8,000	1,781	8,000	515	
Agency registered in Korea Special Sales Financial Cooperative Association	Korea Special Sales Financial Cooperative Association	KRW	502	-	502	-	Payment guarantee for deductibles and others of
Buyer of Goyang Hyangdong district knowledge industry center ²	KB 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	14,384	14,384	Payment guarantee for rent

¹The limit amount of this table excludes the portion of guarantees provided by Korea Housing & Urban Guarantee Corporation (80%) in the limit amount prescribed in the intermediate payment loan agreement.

²The 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. The above loan guarantee was terminated during the six-month period ended June 30, 2024.

22. Contingent Liabilities and Commitments (cont'd)

Details of assets pledged as collaterals as of June 30, 2024 are as follows:

<i>(in millions of Korean won)</i>	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 22,899	₩ 10,000	₩ 15,600	KB Kookmin Bank	Long term borrowings
	44,750	25,000	44,400	Korea Development Bank	Long term borrowings and limit loan
	16,631	13,000	24,000	Shinhan Bank and one other	Short-term borrowings
	29,669	-	2,400	Korea Development Bank	Collateral for limit loan agreement
	2,718	10	30,000	Hana Bank	Facility loan
Investment properties	357,312	21,852	25,415	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts
	77,013	44,000	52,800	KB Kookmin bank and one other	Short-term borrowings
Inventories	15,156	13,500	16,200	IM Bank and two others	Provision of preferential rights through real estate collateral trust contract
Other financial assets and other receivables	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
Financial assets measured at fair value through profit or loss	5,001	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Pledge of Profit Rights	-	70,078	182,520	Shinhan Bank and two others (1st tier), OK Savings Bank and seven others (2nd tier), Daesang Construction Co., Ltd. (3rd tier)	Collateral for project financing
Investments in Associates	1,102	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. ¹
Total	₩ 578,651	₩ 198,037	₩ 410,441		

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

Details of restricted financial assets as of June 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		June 30, 2024	December 31, 2023
Other financial assets and other receivables	Establishment of a pledge for property development	₩ 5,203	₩ 5,203
	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.	4	424
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	600
	Innergin Mall payment guarantee	-	110
Financial assets measured at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	5,001	4,960
Cash and cash equivalents	Establishment of a pledge to savings	606	4,765
Total		₩ 112,011	₩ 116,659

As of June 30, 2024, cash and cash equivalents and short-term financial instruments of ₩ 26,146 million held by the Group are deposited in a trust account in accordance with the managed land trust contract and fund management business entrustment contract.

The contracted amount for the acquisition of major items of property, plant and equipment that have not yet been incurred as of June 30, 2024, is ₩ 261,096 million.

22. Contingent Liabilities and Commitments (cont'd)**(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 ₩ 1,589,644 million in long-term deposits for MSA Escrow Fund as of June 30, 2024 (as of December 31, 2023: ₩ 1,479,737 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 June 30, 2024, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 143,052 million and ₩ 59,157 million, respectively (as of December 31, 2023: ₩ 105,725 million and ₩ 37,295 million, respectively).

As of June 30, 2024, 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 established Starfield Suwon Inc., a 50:50 joint venture with Shinsegae Property Inc. during the year ended December 31, 2018. The disposal of the shares is limited for 5 years from the date Starfield Suwon Inc.'s temporary operation is approved. In the event that the Group or the joint venturer wishes to transfer all of its shares, the other party may elect to exercise the pre-emptive right to purchase the shares or exercise its joint put-option rights.

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 during the year ended December 31, 2023.

As of June 30, 2024, 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 amount of payment obligation is ₩ 5,836 million as of June 30, 2024.

22. Contingent Liabilities and Commitments (cont'd)

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 June 30, 2024, the remaining contribution amount is ₩ 47,309 million, and the detailed timeline for contribution is yet to be determined.

The Group has entered into a contribution agreement in relations to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of June 30, 2024, 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. In addition, when transferring equity shares of Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, shall also be transferred.

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

The Group has entered into a land-sales contract during the year ended December 31, 2018 and completed the balance payment during the year ended December 31, 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.

The Parent Company has a joint disposal right to require other investors to dispose of their ownership under the same condition 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 of the shares by obtaining the approvals from the 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 of the shares, to the Parent Company.

As of June 30, 2024, the Group is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (ePyeonghansesang Daejeon station Centum Vista, etc.) proceeded by the Group.

The Group is obligated to return infrastructure such as roads and neighbourhood 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 were completed during the year ended December 31, 2023, additional expected costs of fulfilling 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.

22. Contingent Liabilities and Commitments (cont'd)

In relation to the sales project of Digital Empire Pyeongchon Biz Valley and ePyeonhansesang Pyeongchon Urban Valley, the Group has an obligation to donate park and roads located in the district and a portion of the facilities built by the Group to Anyang City.

As of June 30, 2024, 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, in relation to the construction of residential and commercial complexes in Sangbong-dong, the Group has reached an agreement with Bando Engineering & Construction Co., Ltd. to resolve the dispute over increase in construction costs due to the permission for change through arbitration judgement ordered by Korea Commercial Arbitration Board. For the progress of the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in instalment according to the completion rate until the point of completion. The construction was completed during the year ended December 31, 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of June 30, 2024.

During the six-month period ended June 30, 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.

As of June 30, 2024, 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 June 30, 2024.

The Parent Company's subsidiaries are engaged in manufacturing and selling tobacco in Russia. As of June 30, 2024, the US and other countries have imposed the economic sanctions against Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of June 30, 2024.

According to the project finance loan agreement for the Gangnam station business complex development project as of June 30, 2024, in the event of trigger clause, such as 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.

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued June 30, 2024 and 2023 (Unaudited)



23. Cash Flows

Details of cash generated from operations for each of the six-month periods ended June 30, 2024 and 2023 are as follows:

(in millions of Korean won)		June 30, 2024	June 30, 2023
Profit for the six-month period ended June 30	₩	598,373	₩ 476,154
Operating profit from continuing operations		601,896	480,102
Operating loss from discontinued operation		(3,523)	(3,948)
Adjustments:			
Employee welfare		8,915	3,459
Retirement benefits		23,892	18,969
Loss on valuation or obsolescence of inventories		9,467	4,859
Depreciation		107,091	104,573
Amortization		15,305	14,023
Reversal of impairment loss on trade and other receivables		(21,051)	(18,928)
Loss on foreign currency translation		33,632	41,439
Loss on valuation of derivatives		24,033	13,416
Loss on disposal of property, plant and equipment		87	2,715
Loss on impairment of property, plant and equipment		605	5,931
Loss on disposal of intangible assets		387	41
Loss on impairment of intangible assets		219	123
Loss on disposal of investment properties		55	59
Other expenses, etc		5,782	1,958
Finance cost		28,861	28,833
Share based payment expense		625	79
Income tax expense		197,859	188,203
Gain on foreign currency translation		(209,496)	(98,903)
Gain on valuation of derivatives		(89)	(4,564)
Gain on disposal of property, plant and equipment		(325)	(1,627)
Gain on disposal of intangible assets		(4)	-
Gain on disposal of investment properties		(11,805)	(6,732)
Other income, etc.		(3,796)	(4,365)
Finance income		(77,148)	(81,253)
Increase of investments in associates and joint ventures due to share of net gain/loss		(9,712)	2,614
Changes in working capital:			
Decrease (increase) in trade and other receivables		77,572	(222,058)
Decrease (increase) in derivatives		(10,380)	13,906
Decrease in inventories		71,026	92,053
Increase in accrued tobacco excise and other taxes		(135,802)	(114,141)
Increase in advance payments		(135,010)	(161,615)
Decrease (increase) in prepaid expenses		(43,817)	12,239
Increase (decrease) in trade and other payables		58,472	(53,205)
Increase in advance receipts		19,350	7,846
Increase in tobacco excise and other taxes payable		131,292	91,578
Decrease in provision for site restoration		-	(1)
Increase (decrease) in net defined benefit liabilities (assets)		(9,926)	1,306
Cash generated from operations	₩	744,539	₩ 358,984

KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued

June 30, 2024 and 2023 (Unaudited)



24. 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:

(in millions of Korean won)

	June 30, 2024	June 30, 2023
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(3,570)	(3,697)
Operating loss	(3,570)	(3,697)
Other income	-	265
Other expense	-	(516)
Finance income	47	-
Finance costs	-	-
Loss on discontinued operation, before tax	(3,523)	(3,948)
Income tax expense	-	-
Loss on discontinued operation, after tax	(3,523)	(3,948)
Exchange differences on translating foreign operations	(3,381)	(1,298)
Total comprehensive loss on discontinued operation	₩ (6,904)	₩ (5,246)

Profit or loss from discontinued operations for each of the six-month periods ended June 30, 2024 and 2023 are entirely attributed to the owners of the Parent Company.

(b) Details of cash flows from discontinued operation:

(in millions of Korean won)

	June 30, 2024	June 30, 2023
Cash flows from operating activities	₩ (3,344)	₩ (1,453)
Cash flows from investing activities	47	-
Cash flows from financing activities	(470)	(469)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	922	630
	₩ (2,845)	₩ (1,292)

25. Events After the Reporting Period

At the Board of Directors' meeting held on August 8, 2024, the Group decided to pay interim dividend of ₩ 135,379 million (₩ 1,200 per share) with June 30, 2024 set as the record date and August 28, 2024 scheduled as the distribution date. The consolidated financial statements for the six-month period ended June 30, 2024 do not include such dividends payables.

According to the resolution of the Board of Directors made on August 8, 2024, the Group plans to buy back 3,610,000 shares of its treasury stocks in 2024 for retirement of the shares.

According to the resolution of the Board of Directors made on August 8, 2024, the Group plans to issue unsecured public bonds denominated in Korean won during the second half of the year of 2024 for the purpose of enhancing corporate value and securing investment funds.