



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

Interim consolidated financial statements  
for each of the nine-month periods ended September 30, 2024 and 2023  
with the independent auditor's review report

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**Report on review of interim consolidated financial statements**  
(English translation of a report originally issued in Korean)

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

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the interim consolidated statement of financial position as of September 30, 2024, and the related interim consolidated statements of comprehensive income for each of the three and nine-month periods ended September 30, 2024 and 2023, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for each of the nine-month periods ended September 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 matters

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*

November 8, 2024

This review report is effective as of November 8, 2024, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modifications to this review report.

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

## **Interim consolidated financial statements**

**For each of nine-month periods ended September 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

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



(in millions of Korean won)

	Notes	September 30, 2024	December 31, 2023
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	22,23	₩ 1,219,849	₩ 1,031,953
Current other financial assets	22,23	484,429	294,103
Current financial assets at fair value through profit or loss	22	246,769	342,933
Trade and other receivables	5,16,21,22,23	1,411,113	1,506,539
Derivative assets	22,23	10,259	7,751
Inventories	6,23	2,784,579	2,763,769
Refund assets and others		903	820
Accrued tobacco excise and other taxes		463,996	324,366
Advanced payments	23	168,291	79,451
Prepaid expenses		116,358	61,440
Current tax assets		2,827	5,249
Assets held for sale	4,12	78,612	-
<b>Total current assets</b>		<b>6,987,985</b>	<b>6,418,374</b>
<b>Non-current assets</b>			
Long-term other financial assets	22,23	51,202	84,462
Long-term deposits in MSA Escrow Fund	22,23	1,523,224	1,479,737
Long-term financial assets measured at fair value through profit or loss	22,23	322,385	344,455
Long-term trade and other receivables	5,22	151,582	149,670
Long-term financial assets measured at fair value through other comprehensive income or loss	22,23	251,601	233,058
Investments in associates and joint ventures	4,7,21,23	478,943	471,327
Property, plant and equipment	8,23	2,438,675	2,096,467
Intangible assets	9	174,481	175,028
Investment properties	10,23	804,978	1,018,434
Right-of-use assets	11	48,529	49,029
Long-term advance payments	23	138,755	105,725
Long-term prepaid expenses		13,723	12,663
Deferred tax assets	20	80,162	74,949
Net defined benefit assets	14	26,381	59,074
<b>Total non-current assets</b>		<b>6,504,621</b>	<b>6,354,078</b>
<b>Total assets</b>		<b>₩ 13,492,606</b>	<b>₩ 12,772,452</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	13,22,23	₩ 337,132	₩ 61,576
Current portion of long-term borrowings and bonds	13,22,23	149,679	27,521
Trade and other payables	21,22,23	1,671,218	1,684,673
Current lease liabilities	22	19,487	18,702
Advanced receipts	16	82,534	17,203
Current refund liabilities and provisions	15,23	33,016	33,213
Current tax liabilities	20	125,437	191,016
Tobacco excise and other taxes payables		711,031	638,510
<b>Total current liabilities</b>		<b>3,129,534</b>	<b>2,672,414</b>
<b>Non-current liabilities</b>			
Long-term borrowings and bonds	13,22,23	736,233	469,813
Long-term trade and other payables	22,23	67,002	58,390
Long-term lease liabilities	22	23,616	27,776
Long-term advance receipts	16	10,339	4,177
Net defined benefit liabilities	14	41,967	36,038
Long-term refund liabilities and provisions	15,23	7,007	5,117
Deferred tax liabilities	20	225,678	185,971
Non-controlling interests liabilities	22	7,561	17,821
<b>Total non-current liabilities</b>		<b>1,119,403</b>	<b>805,103</b>
<b>Total liabilities</b>		<b>₩ 4,248,937</b>	<b>₩ 3,477,517</b>

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



(in millions of Korean won)

	Notes	September 30, 2024	December 31, 2023
<b>Equity</b>			
Share capital	₩	954,959	₩ 954,959
Other capital surplus		5,510	4,946
Treasury shares		(1,372,674)	(1,236,933)
Gain on sale of treasury shares		529,029	528,894
Reserves		7,150,910	7,230,299
Retained earnings		1,855,930	1,692,240
<b>Equity attributable to owners of the Parent Company</b>		<u>9,123,664</u>	<u>9,174,405</u>
<b>Non-controlling interest</b>		120,005	120,530
<b>Total equity</b>	₩	<u>9,243,669</u>	₩ <u>9,294,935</u>
<b>Total liabilities and equity</b>	₩	<u>13,492,606</u>	₩ <u>12,772,452</u>

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

**KT&G Corporation and its subsidiaries**  
**Interim consolidated statements of comprehensive income**  
For each of the three-month and nine-month periods ended September 30, 2024 and 2023  
(Unaudited)



(in millions of Korean won)

Notes	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
<b>Continuing operations</b>				
Sales	4,16 ₩	1,636,347 ₩	4,352,382 ₩	1,689,510 ₩
Cost of sales		(780,919)	(862,393)	(2,234,870)
Gross profit		855,428	827,117	2,186,305
Selling, general and administrative expenses	17,21	(437,678)	(420,400)	(1,216,935)
Operating profit	4	417,750	976,313	406,717
Other income	18,21,22	34,602	169,381	84,744
Other expenses	18,21,22	(160,885)	(102,355)	(41,286)
Finance income	19,21,22	41,038	117,203	23,883
Finance costs	19,21,22	(13,221)	(41,148)	(19,323)
Share of net profit (loss) of associates and joint ventures	7	5,323	15,035	10,689
Loss arising from net monetary assets		(5,901)	(15,967)	(5,913)
Profit before income tax		318,706	1,118,462	459,511
Income tax expense	20	(75,477)	(273,336)	(124,645)
Profit from continuing operations		243,229	845,126	334,866
Discontinued operation				
Loss from discontinued operation	25	(1,749)	(5,273)	(1,579)
Profit for the period	₩	241,480 ₩	839,853 ₩	333,287 ₩
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	₩	947 ₩	(4,881) ₩	1,192 ₩
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	22	24,732	34,473	11,112
Equity changes in equity method	7	(1)	(8)	4
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations		(35,383)	6,907	(319)
Capital changes in equity method	7	(113)	83	44
		(9,818)	36,574	12,033
Total comprehensive income for the period	₩	231,662 ₩	876,427 ₩	345,320 ₩
Profit for the period is attributable to:				
Owners of the Parent Company				
Profit from continuing operations	₩	242,992 ₩	845,698 ₩	315,423 ₩
Loss from discontinued operations	25	(1,749)	(5,273)	(1,579)
Profit attributable to owners of the Parent Company		241,243	840,425	313,844
Non-controlling interests				
Profit (loss) from continuing operations		237	(572)	19,443
Profit (loss) from discontinued operations	25	-	-	-
Profit (loss) attributable to non-controlling interests		237	(572)	19,443
Total	₩	241,480 ₩	839,853 ₩	333,287 ₩
Total comprehensive income (loss) for the period attributable to:				
Owners of the Parent Company				
Profit from continuing operations	₩	230,629 ₩	883,087 ₩	328,451 ₩
Profit (loss) from discontinued operations	25	768	(6,135)	(2,588)
Total comprehensive income attributable to owners of the Parent Company		231,397	876,952	325,863
Non-controlling interests				
Profit (loss) from continuing operations		265	(525)	19,457
Profit (loss) from discontinued operations	25	-	-	-
Total comprehensive income (loss) attributable to non-controlling interests		265	(525)	19,457
Total	₩	231,662 ₩	876,427 ₩	345,320 ₩
Earnings (losses) per share (in Korean won)				
Basic and diluted				
From continuing operations	₩	2,281 ₩	7,518 ₩	2,722 ₩
From discontinued operations		(16)	(47)	(14)
	₩	2,265 ₩	7,471 ₩	2,708 ₩

"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 nine-month periods ended September 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
<b>Balance as of January 1, 2023</b>	₩ 954,959	₩ 4,498	₩ (1,236,933)	₩ 528,894	₩ 6,812,286	₩ 2,251,940	₩ 9,315,644	₩ 42,936	₩ 9,358,580
<b>Total comprehensive income for the period</b>									
Profit for the period	-	-	-	-	-	785,144	785,144	24,297	809,441
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(14,849)	(14,849)	82	(14,767)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	18,326	-	18,326	-	18,326
Exchange differences on translating foreign operations	-	-	-	-	(4,449)	-	(4,449)	(1)	(4,450)
Equity changes in equity method	-	-	-	-	(49)	-	(49)	-	(49)
<b>Subtotal other comprehensive income (loss) for the period</b>						(14,849)	(1,021)	81	(940)
<b>Total comprehensive income for the period</b>						770,295	784,123	24,378	808,501
<b>Transactions with owners of the Parent Company:</b>									
Dividends paid	-	-	-	-	-	(720,935)	(720,935)	-	(720,935)
Transfer to other reserve	-	-	-	-	407,601	(407,601)	-	-	-
Acquisition of treasury shares	-	-	(302,728)	-	-	-	(302,728)	-	(302,728)
Changes in non-controlling interest	-	-	-	-	-	-	-	50,096	50,096
Share options	-	409	-	-	-	-	409	-	409
<b>Total Transactions with owners of the Company</b>						(1,128,536)	(1,023,254)	50,096	(973,150)
<b>Balance as of September 30, 2023</b>	₩ 954,959	₩ 4,907	₩ (1,539,661)	₩ 528,894	₩ 7,233,715	₩ 1,893,699	₩ 9,076,513	₩ 117,410	₩ 9,193,923
<b>Balance as of January 1, 2024</b>	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,299	₩ 1,692,240	₩ 9,174,405	₩ 120,530	₩ 9,294,935
<b>Total comprehensive income (loss) for the period</b>									
Profit (loss) for the period	-	-	-	-	-	840,425	840,425	(572)	839,853
<b>Other comprehensive income (loss) for the period:</b>									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(4,930)	(4,930)	49	(4,881)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	34,473	-	34,473	-	34,473
Transfer from gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(12,706)	12,706	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	6,909	-	6,909	(2)	6,907
Equity changes in equity method	-	-	-	-	75	-	75	-	75
<b>Subtotal other comprehensive income (loss) for the period</b>						7,776	36,527	47	36,574
<b>Total comprehensive income (loss) for the period</b>						848,201	876,952	(525)	876,427
<b>Transactions with owners of the Parent Company:</b>									
Dividends paid	-	-	-	-	-	(586,619)	(586,619)	-	(586,619)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-	-	-
Acquisition of treasury shares	-	-	(342,133)	-	-	-	(342,133)	-	(342,133)
Retirement of treasury shares	-	-	206,032	-	-	(206,032)	-	-	-
Share options	-	564	360	135	-	-	1,059	-	1,059
<b>Total Transactions with owners of the Company</b>						(108,140)	(927,693)	-	(927,693)
<b>Balance as of September 30, 2024</b>	₩ 954,959	₩ 5,510	₩ (1,372,674)	₩ 529,029	₩ 7,150,910	₩ 1,855,930	₩ 9,123,664	₩ 120,005	₩ 9,243,669

"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 nine-month periods ended September 30, 2024 and 2023 (Unaudited)



(in millions of Korean won)

	Notes	September 30, 2024	September 30, 2023
<b>Net cash flows provided by operating activities</b>			
	₩	915,118	₩ 896,114
Cash generated from operations	24	1,230,870	1,269,149
Income taxes paid		(315,752)	(373,035)
<b>Net cash flows used in investing activities</b>		(424,732)	(420,201)
Interest received		70,698	37,763
Dividends received		16,056	20,587
Decrease in other financial assets		342,525	113,869
Decrease in current financial assets measured at fair value through profit or loss		173,851	397,910
Decrease in long-term financial assets measured at fair value through profit or loss		26,339	4,846
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		29,216	-
Disposal of property, plant and equipment		11,899	6,482
Disposal of intangible assets		1,186	1,031
Disposal of investment properties		19,991	8,560
Disposal of assets held for sale		181	188
Disposal of investments in associates and joint ventures		25,982	-
Receipt of government grant		-	332
Collection of loans		19,235	18,199
Collection of guarantee deposits		4,179	1,258
Increase in other financial assets		(491,515)	(191,748)
Increase in current financial assets measured at fair value through profit or loss		(36,164)	(181,394)
Increase in long-term financial assets measured at fair value through profit or loss		(35,277)	(32,159)
Increase in long-term deposits in MSA Escrow Fund		(8,068)	(1,635)
Acquisition of property, plant and equipment		(501,570)	(292,493)
Acquisition of intangible assets		(24,512)	(31,243)
Acquisition of investment properties		(7,671)	(16,884)
Acquisition of right-of-use assets		(2,964)	(1,053)
Acquisition of investments in associates and joint ventures		(20,000)	(188,978)
Increase in loans		(33,968)	(75,602)
Increase in guarantee deposits		(4,361)	(4,072)
Net cash inflows due to changes in scope of consolidation		-	(13,965)
<b>Net cash flows used in financing activities</b>		(318,491)	(725,469)
Dividends paid		(586,619)	(720,935)
Interest paid		(32,958)	(13,240)
Repayment of lease liabilities		(17,390)	(18,057)
Acquisition of treasury shares		(342,133)	(302,728)
Repayment of borrowings		(390,087)	(1,315,129)
Proceeds in borrowings		751,606	1,345,547
Proceeds from issuance of bond		298,990	299,073
Increase in non-controlling interests liabilities		100	-
<b>Net increase (decrease) in cash and cash equivalents</b>		171,895	(249,556)
<b>Cash and cash equivalents at the beginning of the period</b>		1,031,953	1,401,018
Effect of exchange rate fluctuation on cash and cash equivalents		16,001	22,176
<b>Cash and cash equivalents at the end of the period</b>	₩	<u>1,219,849</u>	₩ <u>1,173,638</u>

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

## **1. Reporting Entity**

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

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of September 30, 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.

# KT&G Corporation and its subsidiaries

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



## 1.2 Consolidated Subsidiaries

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

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

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

<sup>2</sup>The Parent Company has acquired 38.25% of preferred stocks with voting rights of DNC Deogeun Co., Ltd. during the year ended December 31, 2023, securing 51.00% of 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 has 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.

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

**1.2 Consolidated Subsidiaries (cont'd)**

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

During the nine-month period ended September 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 investment establishment method.

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. through issuance of new stocks, 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 ₩ 19,722 million of KT&G Kazakhstan LLP.

During the year ended December 31, 2023, the Parent Company newly acquired 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 (₩ 35,000 million) with voting rights of Edn the pine central Seocho Co., Ltd. through equity purchase.

During the year ended December 31, 2023, PT Trisakti Purwosari Makmur, a subsidiary of the Parent Company, set the merger date on January 1, 2023 for the purpose of establishing a foundation for mid- to long-term sustainable growth through efficient reinvestment of local profits in Indonesia. PT KT&G Indonesia, a subsidiary of the Parent Company, was absorbed and merged. There is no transaction gain or loss recognized as the transactions under the common control are accounted for based on the book value and assets, liabilities and equity are recognized and derecognized at the book value of the date of merger.

## **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 September 30, 2024, these amendments and interpretations do not have a significant 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	September 30, 2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 3,158,649	₩ 1,096,250	₩ 234,841	₩ 260,185	₩ 4,749,925	₩ (397,543)	₩ 4,352,382
Intersegment sales	(264,316)	(116,995)	(10,641)	(5,591)	(397,543)	397,543	-
External sales	2,894,333	979,255	224,200	254,594	4,352,382	-	4,352,382
Operating profit <sup>1</sup>	867,348	77,196	21,251	10,053	975,848	465	976,313
Depreciation and amortization	127,608	34,955	23,312	8,072	193,947	(9,267)	184,680

<sup>1</sup>Other income or expenses item not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

(in millions of Korean won)

	September 30, 2023						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 2,909,698	₩ 1,163,530	₩ 471,392	₩ 227,479	₩ 4,772,099	₩ (350,924)	₩ 4,421,175
Intersegment sales	(191,349)	(105,781)	(48,947)	(4,847)	(350,924)	350,924	-
External sales	2,718,349	1,057,749	422,445	222,632	4,421,175	-	4,421,175
Operating profit <sup>1</sup>	747,918	88,009	103,002	1,503	940,432	28,938	969,370
Depreciation and amortization	119,671	36,884	22,442	8,040	187,037	(7,633)	179,404

<sup>1</sup>Other income or expenses item not comprised in the operating profit (loss) are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.



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

(c) The Group recognizes revenue by transferring goods and services over 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)

		September 30, 2024		September 30, 2023	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Revenue recognized at a point in time:					
Tobacco	Wholesale and retail	₩ 1,044,364	₩ 2,869,722	₩ 961,217	₩ 2,691,616
	Direct sales	3,483	24,611	11,452	26,733
Ginseng	Wholesale and retail	234,322	570,570	219,351	585,167
	Direct sales	171,437	408,685	193,492	472,582
Others	Wholesale and retail	83,541	252,838	78,531	221,014
	Direct sales	653	1,756	564	1,618
Real estate	Sales	2,560	12,832	12,760	12,760
	Subtotal	1,540,360	4,141,014	1,477,367	4,011,490
Revenue recognized over time:					
	Sales	68,132	128,982	187,006	335,108
Real estate	Rental	27,855	82,386	25,137	74,577
	Subtotal	95,987	211,368	212,143	409,685
	Total	₩ 1,636,347	₩ 4,352,382	₩ 1,689,510	₩ 4,421,175

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

(in millions of Korean won)

		September 30, 2024						
		Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:								
Segment assets	₩	7,727,187	₩ 2,122,921	₩ 1,316,530	₩ 250,761	₩ 11,417,399	₩ (2,972,626)	₩ 8,444,773
Investments in associates and joint ventures		-	-	456,274	22,669	478,943	-	478,943
Assets held for sale		78,612	-	-	-	78,612	-	78,612
Subtotal	₩	7,805,799	₩ 2,122,921	₩ 1,772,804	₩ 273,430	₩ 11,974,954	₩ (2,972,626)	₩ 9,002,328
Common assets								4,490,278
Total assets								₩ 13,492,606
Acquisition of non-current assets	₩	486,257	₩ 27,401	₩ 1,923	₩ 18,124	₩ 533,705	₩ (8,377)	₩ 525,328
Liabilities:								
Segment liabilities	₩	2,899,728	₩ 247,546	₩ 57,298	₩ 102,224	₩ 3,306,796	₩ (672,712)	₩ 2,634,084
Common liabilities								1,614,853
Total liabilities								₩ 4,248,937

(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								4,192,787
Total assets								₩ 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	September 30, 2024			September 30, 2023		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 2,835,474	₩ 1,516,908	₩ 4,352,382	₩ 3,127,934	₩ 1,293,241	₩ 4,421,175
Non-current assets	2,933,706	532,958	3,466,664	3,026,764	153,335	3,180,099

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

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

## 5. Trade and Other Receivables

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

(in millions of Korean won)

	September 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,203,620	₩ 8,759	₩ 1,328,580	₩ -
Loans	70,723	89,516	58,989	87,727
Other receivables	48,842	3,999	30,899	2,634
Guarantee deposits	73,153	49,255	72,146	59,201
Accrued income	14,775	53	15,925	108
Total	₩ 1,411,113	₩ 151,582	₩ 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 September 30, 2024 and December 31, 2023 are as follows:

(in millions of Korean won)

	September 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,453,419	₩ 151,812	₩ 1,570,234	₩ 150,147
Allowances:				
Trade receivables	(36,855)	-	(59,446)	-
Other receivables	(5,451)	(230)	(4,249)	(477)
Subtotal	(42,306)	(230)	(63,695)	(477)
Net trade and other receivables	₩ 1,411,113	₩ 151,582	₩ 1,506,539	₩ 149,670

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

(in millions of Korean won)

	September 30, 2024	September 30, 2023
Beginning balance	₩ 64,172	₩ 79,600
Impairment loss (reversal of impairment loss)	(20,901)	(11,236)
Write off	(681)	(322)
Net exchange difference and others	(54)	(214)
Ending balance	₩ 42,536	₩ 67,828

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.

## 6. Inventories

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

(in millions of Korean won)

	September 30, 2024			December 31, 2023		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 56,219	₩ (4,002)	₩ 52,217	₩ 69,582	₩ (1,963)	₩ 67,619
Finished goods	403,348	(40,354)	362,994	352,918	(39,634)	313,284
Half-finished goods and work in progress	869,871	(2,092)	867,779	1,043,034	(3,032)	1,040,002
Raw materials	942,253	(4,214)	938,039	900,339	(5,084)	895,255
Supplies	83,521	-	83,521	69,117	-	69,117
By-products	8,271	-	8,271	9,328	-	9,328
Buildings under construction	78,876	-	78,876	20,938	-	20,938
Completed buildings	121,376	-	121,376	129,941	-	129,941
Sites for construction of real estate	230,818	-	230,818	129,633	-	129,633
Goods in transit	40,911	(223)	40,688	88,652	-	88,652
Total	₩ 2,835,464	₩ (50,885)	₩ 2,784,579	₩ 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Cost of sales:				
Loss (reversal) on valuation of inventories	₩ (2,206)	₩ 528	₩ 1,670	₩ 170
Loss on obsolescence of inventories	368	7,027	568	6,660
Other expense:				
Loss on obsolescence of inventories	1,162	1,236	15	282
Total	₩ (676)	₩ 8,791	₩ 2,253	₩ 7,112

## 7. Investments in Associates and Joint Ventures

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

(in millions of Korean won)

	September 30, 2024	September 30, 2023
Beginning balance	₩ 471,327	₩ 274,534
Acquisition	20,000	188,978
Disposal	(25,982)	-
Shares of net profit or loss	15,035	8,075
Dividends	(1,538)	(1,987)
Reclassification <sup>1</sup>	-	105
Changes in equity	101	(66)
Ending balance	₩ 478,943	₩ 469,639

<sup>1</sup>₩ 105 million effect of changes in scope of consolidation is include for the nine-month period ended September 30, 2023.

## 8. Property, Plant and Equipment

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

<i>(in millions of Korean won)</i>		<b>September 30, 2024</b>		<b>September 30, 2023</b>
Beginning balance	₩	2,096,467	₩	1,837,041
Acquisition <sup>1</sup>		471,332		240,759
Disposal/Impairment		(2,513)		(11,344)
Depreciation		(122,788)		(119,534)
Reclassification, etc. <sup>2</sup>		(3,823)		(11,613)
Ending balance	₩	<u>2,438,675</u>	₩	<u>1,935,309</u>

<sup>1</sup>During the nine-month period ended September 30, 2024, the Group has capitalized borrowings costs amounting to ₩ 9,550 million for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.13%~5.59%.

<sup>2</sup>Consists of ₩ 14,580 million of transfers to investment properties for the nine-month period ended September 30, 2024. And ₩ 13,360 million of transfers to investment properties, ₩ 32 million of transfers to inventories and ₩ 71 million of transfers to intangible assets for the nine-month period ended September 30, 2023.

## 9. Intangible Assets

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

<i>(in millions of Korean won)</i>		<b>September 30, 2024</b>		<b>September 30, 2023</b>
Beginning balance	₩	175,028	₩	167,851
Acquisition		23,993		29,014
Disposal/Impairment		(1,925)		(1,717)
Amortization		(22,982)		(22,005)
Reclassification, etc. <sup>1</sup>		367		1,177
Ending balance	₩	<u>174,481</u>	₩	<u>174,320</u>

<sup>1</sup>Consists of ₩ 71 million which was reclassified to intangible assets from property, plant and equipment for the nine-month period ended September 30, 2023.

## 10. Investment Properties

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

<i>(in millions of Korean won)</i>		<u>September 30, 2024</u>		<u>September 30, 2023</u>
Beginning balance	₩	1,018,434	₩	1,071,463
Acquisition <sup>1</sup>		8,435		14,874
Disposal/Impairment		(4,747)		(1,841)
Depreciation		(17,506)		(17,656)
Reclassification, etc. <sup>2</sup>		(199,638)		(46,046)
Ending balance	₩	<u>804,978</u>	₩	<u>1,020,794</u>

<sup>1</sup>During the nine-month period ended September 30, 2024, the Group has capitalized borrowing costs amounting to ₩ 1,069 million for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.13%~4.45%.

<sup>2</sup>Consists of ₩ 14,580 million of transfers from property, plant and equipment, ₩ 135,657 million of transfers to inventories and ₩ 78,612 million of transfers to assets held for sale for the nine-month period ended September 30, 2024. And ₩ 13,360 million of transfers from property, plant and equipment and ₩ 58,069 million of transfers to inventories for the nine-month period ended September 30, 2023.

## 11. Right-of-use Assets

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

<i>(in millions of Korean won)</i>		<u>September 30, 2024</u>		<u>September 30, 2023</u>
Beginning balance	₩	49,029	₩	40,244
Acquisition		21,568		30,468
Disposal		(1,125)		(853)
Depreciation		(21,404)		(20,210)
Reclassification, etc.		461		27
Ending balance	₩	<u>48,529</u>	₩	<u>49,676</u>

## 12. Assets held for Sale

Changes in assests held for sale for each of the nine-month periods ended September 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	September 30, 2024		September 30, 2023	
Beginning balance	₩	-	₩	-
Disposal		-		-
Reclassification <sup>1</sup>		78,612		-
Ending balance	₩	78,612	₩	-

<sup>1</sup>Reclassification consists of ₩ 78,612 million of transfers from investment properties for the nine-month period ended September 30, 2024.

## 13. Borrowings and Bonds

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

<i>(in millions of Korean won)</i>	Lender	Annual interest rate (%)	September 30, 2024	December 31, 2023
Borrowings	Hana Bank	FTP(1 year)+1.08	₩ -	₩ 3,000
		FTP(6 months)+0.612	3,000	-
		FTP(6 months)+0.69	300,000	-
	Hana Bank Shanghai branch	LPR(1 year)-0.5	6,132	-
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	-	5,764
	KB Kookmin Bank	5.50	-	37,504
	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	-	4,808
	Korea Development Bank	3.66	14,000	-
	Subtotal		337,132	61,076
	Others	18.00	-	500
Others	Total		₩ 337,132 ₩	₩ 61,576

# KT&G Corporation and its subsidiaries

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



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

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

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)	September 30, 2024	December 31, 2023
Other financial loan for working capital <sup>1</sup>	NH Nonghyup Bank	2025.06.22~ 2027.06.20	-	₩ 39,963	₩ 38,990
Financial agricultural mid-term loan <sup>1</sup>	NH Nonghyup Bank	2028.07.19~ 2029.07.24	-	31,910	14,162
Borrowings	NH Nonghyup Bank	2028.11.21	3.00	11,385	11,060
	NH Nonghyup Bank	2028.07.19~ 2028.12.27	3.00	12,252	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	3,750	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
	Mirae Asset Capital Co., Ltd.	2026.08.29	CP+1.41	45,743	-
	IM Bank	2027.05.30	MOR(6 months)+2.18	3,492	-
	Shinhan Bank	2026.05.21	6.50	9,316	3,708
	Shinhan Card Co., Ltd.	2026.05.21	Financial Debenture (3 years)+1.99	16,239	6,488
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50	14,304	13,904
	OK Savings Bank	2026.05.21	9.00	8,105	7,879
	Korea Investment Savings Bank	2026.05.21	9.00	7,152	6,952
	JT Chinae Savings Bank	2026.05.21	9.00	6,675	6,488
	The-K Savings Bank	2026.05.21	9.00	4,768	4,635
	BNK Savings Bank	2026.05.21	9.00	4,768	4,635
	Choeun Savings Bank	2026.05.21	9.00	2,861	2,781
	Insung Savings Bank	2026.05.21	9.00	1,907	1,854
	Incheon Savings Bank	2026.05.21	9.00	1,907	1,854
	Total			₩ 260,997	₩ 174,791
Current				49,817	27,521
Non-current				211,180	147,270
	Total			₩ 260,997	₩ 174,791

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

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

(in millions of Korean won)	Issued Date	Maturity	Annual interest rate (%)	September 30, 2024	December 31, 2023
2-1 <sup>st</sup> non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩ 100,000	₩ 100,000
2-2 <sup>nd</sup> non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	200,000
3-1 <sup>st</sup> non-guarantee public bonds	2024.04.25	2026.04.24	3.624	50,000	-
3-2 <sup>nd</sup> non-guarantee public bonds	2024.04.25	2027.04.23	3.763	150,000	-
3-3 <sup>rd</sup> non-guarantee public bonds	2024.04.25	2029.04.25	3.808	100,000	-
	Subtotal			600,000	300,000
	Discount on bonds			(1,404)	(835)
	Total			₩ 598,596	₩ 299,165
Current				99,862	-
Non-current				498,734	299,165
	Total			₩ 598,596	₩ 299,165



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

#### (d) Convertible bonds

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

<i>(in millions of Korean won)</i>		<u>September 30, 2024</u>		<u>December 31, 2023</u>
Face value	₩	30,300	₩	30,300
Redemption premium		1,234		1,234
Conversion right adjustment		(5,215)		(8,156)
Total	₩	<u>26,319</u>	₩	<u>23,378</u>

Details of issuance condition of convertible bonds issued by the Group as of September 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	(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 × [(A+(B× C/D))/(A+B)] A: Number of outstanding shares, B: Number of newly issued shares, C: Issue price per share, D: Market price (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. (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. (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.
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 23.(c) of interim consolidated financial statements, the Group provides collaterals for the above borrowings.

## 14. Employee Benefits

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

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Defined benefit plans:				
Current service cost	₩ 12,202	₩ 36,493	₩ 11,521	₩ 33,435
Net interest on net defined benefit liabilities	(56)	(455)	(607)	(2,743)
Past service cost and gain and loss on settlement	-	-	-	(808)
Subtotal	12,146	36,038	10,914	29,884
Defined contribution plan:				
Contributions recognized as expense	2,468	6,390	1,732	5,207
Other long-term employee benefits:				
Current service cost, etc.	1,728	10,110	1,546	5,416
Termination benefits:				
Voluntary retirements, etc.	1,450	3,077	40	533
Total	₩ 17,792	₩ 55,615	₩ 14,232	₩ 41,040

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

(in millions of Korean won)

	September 30, 2024	December 31, 2023
Present value of defined benefit obligations	₩ 588,865	₩ 580,538
Fair value of plan assets	(573,279)	(603,574)
Total	₩ 15,586	₩ (23,036)

# KT&G Corporation and its subsidiaries

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



## 15. Refund Liabilities and Provisions

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

(in millions of Korean won)

	September 30, 2024		December 31, 2023	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 1,343	₩ -	₩ 1,780	₩ -
Refund liabilities	13,012	6,423	12,901	4,409
Provision for site restoration	1,560	552	1,537	680
Provision for financial guarantee	22	29	18	26
Provision for greenhouse gases	10	-	51	-
Provision for others	17,069	3	16,926	2
Total	₩ 33,016	₩ 7,007	₩ 33,213	₩ 5,117

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

(in millions of Korean won)

	September 30, 2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 3,300	₩ (3,737)	₩ 1,343
Refund liabilities	17,310	13,450	(11,325)	19,435
Provision for site restoration	2,217	166	(271)	2,112
Provision for financial guarantee	44	34	(27)	51
Provision for greenhouse gases	51	-	(41)	10
Provision for others	16,928	144	-	17,072
Total	₩ 38,330	₩ 17,094	₩ (15,401)	₩ 40,023

(in millions of Korean won)

	September 30, 2023			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 4,172	₩ 1,460	₩ (3,259)	₩ 2,373
Refund liabilities	18,309	3,856	(4,368)	17,797
Provision for site restoration	2,301	169	(310)	2,160
Provision for financial guarantee	134	29	(86)	77
Provision for greenhouse gases	194	-	(125)	69
Provision for others	15,407	859	(623)	15,643
Total	₩ 40,517	₩ 6,373	₩ (8,771)	₩ 38,119

## 16. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sale contracts for each of the nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

September 30, 2024								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value <sup>1</sup>	Total sales contract value	Revenue (cumulative) <sup>2</sup>	Revenue (period) <sup>3</sup>	Cost (cumulative) <sup>4</sup>
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	54.11	226,951	193,218	104,297	39,913	87,156
Nokbeon-dong Mixed-use building	April 2023	February 2025	72.44	29,720	25,220	18,269	9,387	12,017
Elif Mia station Complex 1	May 2023	August 2026	32.98	61,562	44,907	14,743	7,514	11,033
Elif Mia station Complex 2	May 2023	August 2026	31.43	155,141	108,542	34,024	15,936	24,767
ePyeonghansang Pyeongchon Urban Valley	April 2024	October 2026	13.80	399,869	397,291	54,814	54,814	33,559
Digital Empire Pyeongchon Biz Valley	April 2024	March 2027	14.40	352,768	11,586	1,418	1,418	1,133
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 <sup>5</sup>	March 2021	July 2023	100.00	541,142	502,711	482,560	-	313,982
Total				₩ 2,836,900	₩ 2,271,013	₩ 1,691,033	₩ 128,982	₩ 960,208

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

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

<sup>3</sup>Excludes the revenue of ₩ 12,832 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the nine-month period ended September 30, 2024.

<sup>4</sup>Excludes cumulative costs for common infrastructure, amounting to ₩ 242,167 million.

<sup>5</sup>As of September 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.

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

(in millions of Korean won)

September 30, 2023								
Construction project	Initial sales contract date	Expected completion date	Progress (%)	Total sales value <sup>1</sup>	Total sales contract value <sup>2</sup>	Revenue (cumulative)	Revenue (period)	Cost (cumulative) <sup>4</sup>
Suwon Hwaseo Prugio Briciel	June, 2020	September, 2023	100.00	₩ 803,056	₩ 750,352	₩ 750,328	₩ 123,637	₩ 348,542
ePyeonghansang Daejeon station Centum Vista	December, 2022	June, 2026	18.99	226,951	194,148	36,865	36,340	30,422
Nokbeon-dong mixed-use building	April, 2023	February, 2025	19.03	29,720	25,220	4,799	4,799	3,144
Elif Mia station Complex 1	May, 2023	August, 2026	8.51	61,562	25,568	2,176	2,176	1,563
Elif Mia station Complex 2	May, 2023	August, 2026	8.84	155,141	88,161	7,797	7,797	5,434
Gireum-dong Neighborhood Commercial Facilities	July, 2023	December, 2023	12.78	27,580	27,580	3,526	3,526	236
Gwacheon Sangsang Xi Tower B	January, 2021	May, 2023	100.00	266,691	239,568	232,962	26,633	138,497
Goyang Hyangdong district knowledge industry center <sup>3</sup>	March, 2021	July, 2023	100.00	541,142	540,077	518,795	130,200	355,930
Total				₩ 2,111,843	₩ 1,890,674	₩ 1,557,248	₩ 335,108	₩ 883,768

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

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

<sup>3</sup>Revenue for the nine-month period ended September 30, 2023 excludes the amount of revenues incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

<sup>4</sup>Excludes cumulative costs for common infrastructure, amounting to ₩ 109,492 million.

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

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

(in millions of Korean won)

Construction project	September 30, 2024			
	Revenue (cumulative)	Cash collected, etc. (cumulative)	Trade receivables for sale in lots <sup>1</sup>	Advanced receipts for sale in lots <sup>2</sup>
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonghansesang Daejeon station Centum Vista	104,297	30,166	74,846	715
Nokbeon-dong Mixed-use apartment	18,269	12,609	5,660	-
Elif Mia station Complex 1	14,743	5,359	9,470	86
Elif Mia station Complex 2	34,024	13,075	21,166	217
ePyeonghansesang Pyeongchon Urban Valley	54,814	47,756	7,166	108
Digital Empire Pyeongchon Biz Valley	1,418	908	510	-
Gwacheon Sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	₩ 1,691,033	₩ 1,572,756	₩ 119,405	₩ 1,128

<sup>1</sup>As of September 30, 2024, contract assets unclaimed to customers are ₩ 115,558 million and will be reclassified to receivables in accordance with the billing schedule as pursuant to the contract.

<sup>2</sup>Includes 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 <sup>1</sup>	Advanced receipts for sale in lots <sup>2</sup>
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

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

<sup>2</sup>Includes 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 nine-month period ended September 30, 2024. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sale contracts are based on the circumstances that have occurred until September 30, 2024, and subject to probable changes in the future.

## 16. 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 September 30, 2024 and 2023, are as follows:

(in millions of Korean won)

Construction project	September 30, 2024		December 31, 2023	
	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>	Trade receivables for sale in lots	Advanced receipts for sale in lots <sup>1</sup>
Suwon Hwaseo Prugio Briciel	₩ -	₩ 806	₩ -	₩ 1,465
ePyeonghansang Daejeon station Centum Vista	-	105	-	93
Elif Mia Station Complex 1	-	457	-	322
Elif Mia Station Complex 2	-	3,569	-	666
Sangbong station Ubona First Live and Four Square	9,549	797	6,626	774
Total	₩ 9,549	₩ 5,734	₩ 6,626	₩ 3,320

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

## 17. Selling, General and Administrative Expenses

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

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Salaries	₩ 130,736	₩ 385,781	₩ 127,312	₩ 374,192
Retirement and termination benefits	10,870	30,016	8,294	22,985
Employee welfare	32,044	74,801	20,742	57,099
Travel expenses	6,743	17,369	6,097	17,257
Communication cost	1,932	4,885	1,207	4,399
Utilities	4,143	11,902	4,720	11,889
Taxes and dues	2,376	31,702	2,111	31,014
Supplies	1,770	4,435	829	4,743
Rent	4,226	12,857	4,740	13,076
Depreciation	15,549	45,816	11,519	41,036
Amortization	5,420	17,280	7,718	21,577
Repairs and maintenance	3,992	8,114	2,968	5,983
Vehicles	1,993	5,320	1,786	5,210
Insurance	1,024	2,861	1,164	2,781
Commissions	89,287	274,605	96,273	308,353
Freight and custody	19,917	53,940	17,466	50,505
Conferences	1,285	3,967	1,136	3,729
Advertising	88,004	227,234	81,690	210,899
Education and training	1,941	5,168	1,967	6,121
Prizes and rewards	662	1,565	398	1,221
Cooperation	393	955	292	803
Research and development	14,056	39,001	12,417	33,375
Impairment loss(reversal of impairment loss) on trade receivables	(685)	(22,129)	7,554	(11,312)
Total	₩ 437,678	₩ 1,237,445	₩ 420,400	₩ 1,216,935

## 18. Other Income and Expense

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

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Gain on foreign currency transaction	₩ 10,338	₩ 49,021	₩ 24,191	₩ 49,872
Gain on foreign currency translation	-	73,944	58,688	157,592
Gain on valuation of derivatives	15,111	12,657	1,424	5,988
Gain on disposal of property, plant and equipment	2,287	2,612	30	1,657
Gain on disposal of intangible assets	26	30	3	3
Gain on disposal of investment properties	2,056	13,860	91	6,823
Gain on lease contract adjustments	32	222	59	309
Gain on disposal of right-of-use assets	-	-	2	2
Miscellaneous income	4,752	17,035	256	8,161
Total	₩ 34,602	₩ 169,381	₩ 84,744	₩ 230,407

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

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Loss on foreign currency transaction	₩ 16,682	₩ 32,360	₩ 9,727	₩ 23,087
Loss on foreign currency translation	139,474	37,554	15,984	57,423
Loss on valuation of derivatives	-	21,489	8,958	22,374
Impairment loss on other receivables	835	1,229	138	76
Loss on disposal of property, plant and equipment	260	347	288	3,003
Loss on impairment of property, plant and equipment	303	908	1,313	7,244
Loss on disposal of intangible assets	117	504	243	284
Loss on impairment of intangible assets	47	266	282	405
Loss on disposal of investment properties	141	196	-	59
Donations	1,571	3,447	1,607	3,311
Loss on lease contract adjustments	18	62	5	19
Miscellaneous loss	1,437	3,993	2,741	11,552
Total	₩ 160,885	₩ 102,355	₩ 41,286	₩ 128,837



## 19. Finance Income and Costs

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

(in millions of Korean won)

	September 30, 2024		September 30, 2023	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Finance income:				
Interest income <sup>1</sup>	₩ 29,745	₩ 84,514	₩ 18,200	₩ 52,383
Dividend income	3,619	12,459	3,737	15,877
Gain on valuation of financial assets measured at fair value through profit or loss	7,623	20,161	1,917	36,846
Gain on disposal of financial instrument	51	69	29	29
Total finance income	₩ 41,038	₩ 117,203	₩ 23,883	₩ 105,135
Finance cost:				
Interest expense	₩ 13,221	₩ 31,432	₩ 13,174	₩ 40,062
Loss on valuation of financial assets measured at fair value through profit or loss	-	9,716	5,976	7,921
Other financial expenses	-	-	173	173
Total finance cost	₩ 13,221	₩ 41,148	₩ 19,323	₩ 48,156
Net finance income	₩ 27,817	₩ 76,055	₩ 4,560	₩ 56,979

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

## 20. 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 nine-month periods ended September 30, 2024 and 2023 are 24.55% and 27.88%, 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 implication of 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 September 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.

## 21. Related Parties

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

Type	Name of entity	Location	Percentage of ownership (%)	
			September 30, 2024	December 31, 2023
Associates	LitePharmTech Co., Ltd. <sup>1</sup>	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd. <sup>1</sup>	Korea	18.95	18.95
	KOCREF 36 REIT	Korea	21.01	21.01
	KOCREF 41 REIT	Korea	26.47	26.47
	Cheongna Medipolis PFV Co., Ltd. <sup>2</sup>	Korea	51.01	51.01
	INNODIS CO., Ltd. <sup>1</sup>	Korea	19.64	19.64
	SJ BIO MED Co., Ltd. <sup>1,3</sup>	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 <sup>4</sup>	Korea	66.67	66.67
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund <sup>5</sup>	Korea	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00
Others	AndaStation Professional Investment Private REIT No.1 <sup>6</sup>	Korea	-	21.43
	KORAMCO Dongjak PFV Co., Ltd. <sup>6</sup>	Korea	-	19.47
	Others <sup>7</sup>	Korea	-	-

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

<sup>2</sup>The Group has classified the ownership as investment in associates as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies in accordance with the agreement with shareholders.

<sup>3</sup>As of September 30, 2024, liquidation procedures are in progress.

<sup>4</sup>Although the Group's percentage of ownership for the invested company exceeds 50%, the Group classified the ownership as investment in associates as the Group does not have control over related activities and may exercise significant influence on the invested company by participating on the entity's investment decision-making board.

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

<sup>6</sup>The Group excluded the entity from its related parties, as the entity was disposed during the nine-month period ended September 30, 2024.

<sup>7</sup>The 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.

## 21. 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	September 30, 2024				September 30, 2023			
		Sales and other income		Purchase and other expenses		Sales and other income		Purchase and other expenses	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Associates	KOCREF 36 REIT	₩ -	₩ 600	₩ -	₩ -	₩ -	₩ 600	₩ -	₩ -
	KOCREF 41 REIT	-	938	-	-	-	914	-	-
	INNODIS Co., Ltd.	-	-	74	221	-	-	73	196
	Cheongna Medipolis PFV Co., Ltd.	300	333	-	-	-	-	-	-
Joint ventures	Starfield Suwon Inc.	91	91	28	76	-	-	-	-
Others	AndaStation Professional Investment Private REIT No.1 <sup>1</sup>	-	-	-	-	-	473	-	-
	Others	613	2,967	-	-	-	-	-	-
	Total	₩ 1,004	₩ 4,929	₩ 102	₩ 297	₩ -	₩ 1,987	₩ 73	₩ 196

<sup>1</sup>The Group excluded the entity from its related parties, as the entity was disposed during the nine-month period ended September 30, 2024.

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

(in millions of Korean won)

Type	Name of entity	September 30, 2024		December 31, 2023	
		Receivables	Payables	Receivables	Payables
Associates	INNODIS Co., Ltd.	₩ -	₩ 27	₩ -	₩ -
Joint venture	Starfield Suwon, Inc.	138	10	8	37
Others	AndaStation Professional Investment Private REIT No.1 <sup>1</sup>	-	-	481	-
	Others <sup>2</sup>	51,089	361	39,000	775
	Total	₩ 51,227	₩ 398	₩ 39,489	₩ 812

<sup>1</sup>The Group excluded the entity from its related parties, as the entity was disposed during the nine-month period ended September 30, 2024.

<sup>2</sup>Presented in the total amount of receivables before deducting loss allowance of ₩ 4,395 million (December 31, 2023: ₩ 3,483 million) as of September 30, 2024.

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

(in millions of Korean won)

Type	Name of entity	September 30, 2024			September 30, 2023		
		Equity investment	Loan	Equity recovery	Equity investment	Loan	Equity recovery
Associates	Mirae Asset KT&G Investment Fund I	₩ 5,000	₩ -	₩ -	₩ 5,000	₩ -	₩ -
	Cheongna Medipolis PFV Co., Ltd.	-	-	-	83,978	-	-
Joint ventures	Starfield Suwon Inc.	15,000	-	-	100,000	-	-
Others	AndaStation Professional Investment Private REIT No.1 <sup>1</sup>	-	-	23,738	-	-	-
	KORAMCO Dongjak PFV Co., Ltd. <sup>1</sup>	-	-	2,244	-	-	-
	Others	-	11,870	-	-	-	-
	Total	₩ 20,000	₩ 11,870	₩ 25,982	₩ 188,978	₩ -	₩ -

<sup>1</sup>The Group excluded the entity from its related parties, as the entity was disposed during the nine-month period ended September 30, 2024.

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

(e) The Group is provided with a joint guarantee from GL Industrial Development Co., Ltd. in relation to the ₩ 39,000 million loaned to related parties of DNC Deogeun Co., Ltd. (see Note 23.(c)).

(f) The Group established Starfield Suwon Inc. a 50:50 joint venture with Shinsegae Property Inc. for 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 September 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 transfer of equity shares in Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, should also be transferred.

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

(i) As of September 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 ₩ 30,000 million. As of September 30, 2024, the remaining contribution amount is ₩ 12,000 million, and the detailed timeline for contribution is yet to be determined (see Note 23.(d)).

(k) The Parent Company has a joint disposal right to require other investors to dispose 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 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 the shares, to the Parent Company.

(l) As of September 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 23.(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 23.(d)).

## 21. Related Parties (cont'd)

(n) Key management personnel compensation for each of the nine-month periods ended September 30, 2024 and 2023 are as follows:

*(in millions of Korean won)*

	September 30, 2024		September 30, 2023	
Long (Short)-term employee benefits	₩	19,801	₩	15,700
Retirement benefits		1,790		1,515
Total	₩	21,591	₩	17,215

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

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

**22. 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 September 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 transacting parties using the financial information disclosed upon entering the contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Group then receives collaterals and/or payment guarantees as necessary. In addition, the Group periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay.

As of September 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.

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

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

<i>(in millions of Korean won)</i>		<u>September 30, 2024</u>		<u>December 31, 2023</u>
Financial assets:				
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩	674,723	₩	687,388
Financial assets measured at fair value through other comprehensive income or loss		251,601		233,058
Derivative assets		10,259		7,751
Financial assets measured at amortized cost				
Cash and cash equivalents <sup>1</sup>		1,114,280		1,031,953
Other financial assets		535,631		378,565
Trade and other receivables		1,562,695		1,656,209
Long-term deposits		1,523,224		1,479,737
Subtotal		4,735,830		4,546,464
Total financial assets	₩	5,672,413	₩	5,474,661
Financial liabilities:				
Financial liabilities measured at amortized cost				
Short-term borrowings	₩	337,132	₩	61,576
Current portion of long-term borrowings		149,679		27,521
Long-term borrowings and bonds		736,233		469,813
Trade and other payables		1,279,932		1,284,893
Lease liabilities		43,103		46,478
Liabilities for non-controlling interests		7,561		17,821
Subtotal		2,553,640		1,908,102
Total financial liabilities	₩	2,553,640	₩	1,908,102

<sup>1</sup> Among cash equivalents, the money market trust of ₩ 105,569 million is classified as financial assets measured at fair value through profit or loss as of September 30, 2024.

(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



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

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

(in millions of Korean won)

	September 30, 2024			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss <sup>1</sup>	₩ 674,723	₩ -	₩ 296,207	₩ 378,516
Financial assets measured at fair value through other comprehensive income or loss	251,601	242,096	-	9,505
Derivative assets	10,259	-	10,259	-
Total financial assets	₩ 936,583	₩ 242,096	₩ 306,466	₩ 388,021

<sup>1</sup> Among cash equivalents, the money market trust of ₩ 105,569 million is classified as financial assets measured at fair value through profit or loss as of September 30, 2024.

(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 nine-month period ended September 30, 2024 and year ended December 31, 2023.

As of September 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

	September 30, 2024		September 30, 2023	
	₩		₩	
Beginning balance	₩	397,255	₩	367,456
Acquisition		36,441		34,493
Disposal		(44,377)		(28,381)
Changes in fair value		3,661		4,852
Others		(4,959)		-
Ending balance	₩	388,021	₩	378,420

# KT&G Corporation and its subsidiaries

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



### 22. 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 nine-month periods ended September 30, 2024 and 2023 are as follows:

(in millions of Korean won)

	September 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	₩ -	₩ -	₩ -	₩ 84,514	₩ -	₩ 84,514
Dividend income	6,026	6,433	-	-	-	12,459
Gain or loss on valuation	10,445	-	(8,833)	-	-	1,612
Gain on disposal	69	-	-	-	-	69
Interest expense	-	-	-	-	(31,432)	(31,432)
Reversal of impairment loss	-	-	-	20,901	-	20,901
Gain on lease contract adjustments	-	-	-	-	159	159
Total	₩ 16,540	₩ 6,433	₩ (8,833)	₩ 105,415	₩ (31,273)	₩ 88,282
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 47,759	₩ -	₩ -	₩ -	₩ 47,759

(in millions of Korean won)

	September 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	₩ -	₩ -	₩ -	₩ 52,464	₩ -	₩ 52,464
Dividend income	7,699	8,178	-	-	-	15,877
Gain or loss on valuation	28,925	-	(16,386)	-	-	12,539
Gain on disposal	29	-	-	-	-	29
Interest expense	-	-	-	-	(40,062)	(40,062)
Reversal of impairment loss	-	-	-	11,236	-	11,236
Gain on lease contract adjustments	-	-	-	-	307	307
Other financial expenses	-	-	-	-	(173)	(173)
Total	₩ 36,653	₩ 8,178	₩ (16,386)	₩ 63,700	₩ (39,928)	₩ 52,217
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 24,228	₩ -	₩ -	₩ -	₩ 24,228

# KT&G Corporation and its subsidiaries

Notes to the interim consolidated financial statements, continued  
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## 23. Contingent Liabilities and Commitments

### (a) Litigation cases

As of September 30, 2024, the Group has 22 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 173,133 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 September 30, 2024.

### (b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of September 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	70,700
Derivatives trading <sup>1</sup>	KB Kookmin Bank and five others	USD	219,213	12,039
Trade receivables factoring agreement	Hana Bank	KRW	5,000	188
	Korea Development Bank and six others	KRW	1,052,486	517,386
Others	Hana Bank Shanghai branch	CNY	32,490	32,490

<sup>1</sup>Derivatives are composed of foreign exchange forward contracts and are held for trading as of September 30, 2024.

As of September 30, 2024, the Group has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 115,473 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 September 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	31,235	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 two others	RUB	5,248,034	Trade receivables payment guarantee, etc.

As of September 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.

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

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

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

Guarantee user	Guaranteed by	Currency	September 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 <sup>1</sup>
Buyer of ePyeonghansang Daejeon station Centum Vista	Hana Bank	KRW	8,000	1,781	8,000	515	
Buyer of Digital Empire Pyeongchon Biz Valley	Hana Bank	KRW	9,960	239	-	-	Loan guarantee for the contract deposit
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 branch
Buyer of Goyang Hyangdong district knowledge industry center <sup>2</sup>	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	Payment guarantee for rent

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

<sup>2</sup>The above intermediate payment loan was not repaid by the loan maturity date, resulting in trigger clause in accordance with the intermediate payment loan business agreement with the financial institutions. Financial institutions may request cancellation, termination, or subrogation of loan debt for sales contracts in which the above reasons for trigger clause have occurred, and the joint guarantor has the obligation to repay the sales contract holder's interim payment loan obligation with top priority. The above loan guarantee was terminated during the nine-month period ended September 30, 2024.

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

Details of assets pledged as collaterals as of September 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	₩ 22,930	₩ 10,000	₩ 15,600	KB Kookmin Bank	Long term borrowings
	44,780	23,750	44,400	Korea Development Bank	Long term borrowings and limit loan
	19,336	27,000	40,800	Shinhan Bank and two others	Short-term borrowings
	29,411	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment properties	286,853	21,896	24,000	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts
Inventories	76,829	46,500	55,800	Mirae Asset Capital Co., Ltd.	Long term borrowings <sup>1</sup>
	13,565	11,992	14,391	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
Financial assets measured at fair value through profit or loss	5,019	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract
Pledge of Profit Rights	-	152,100	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 <sup>2</sup>
Investments in Associates	776	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo PFV Co., Ltd. <sup>3</sup>
Total	₩ 505,899	₩ 293,835	₩ 397,017		

<sup>1</sup>As of September 30, 2024, the Group has provided investment properties under real estate collateral trust agreements and insurance claim rights under insurance claim pledge agreements as collateral for borrowings.

<sup>2</sup>As of September 30, 2024, the Group has provided preferential beneficiary certificates under managed land trust agreements as collateral for borrowings. The amount of debts consists of a PF loan limit of ₩ 118,000 million and the initial estimated cost of the contract construction of ₩ 34,100 million.

<sup>3</sup>Equity 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 September 30, 2024 and December 31, 2023 are as follows:

<i>(in millions of Korean won)</i>		September 30, 2024	December 31, 2023
Cash and cash equivalents	Establishment of a pledge to savings	₩ -	₩ 4,765
	Establishment of a pledge for Bundang Tower sales contract guarantee deposits	1,000	-
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	5,019	4,960
	Total	₩ 112,423	₩ 116,659

**23. Contingent Liabilities and Commitments (cont'd)**

As of September 30, 2024, cash and cash equivalents and short-term financial instruments of ₩ 24,110 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 September 30, 2024, is ₩ 141,888 million.

**(d) Others**

Each year, the Group deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Group inflicts damage on tobacco consumers due to any illegal activities committed by the Group and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩ 1,523,224 million in long-term deposits for MSA Escrow Fund as of September 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 September 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 ₩ 138,603 million and ₩ 50,476 million, respectively (as of December 31, 2023: ₩ 105,725 million and ₩ 37,295 million, respectively).

As of September 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. for 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 September 30, 2024, the Group has entered into currency hedge 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 during the nine-month period ended September 30, 2024 is ₩ 15,446 million.

**23. 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 ₩ 150,131 million and USD 15,000 thousand. As of September 30, 2024, the remaining contribution amount is ₩ 50,933 million and USD 760 thousand, 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 September 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 transfer of equity shares in Cheongna Medipolis PFV Co., Ltd., the equity shares of Cheongna Medipolis Development Co., Ltd., a subsidiary of the Parent Company, should also be transferred.

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

The Group has entered into a land-sales contract 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 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 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 the shares, to the Parent Company.

As of September 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 (ePyeonhansesang Daejeon station Centum Vista, etc.) proceeded by the Group.

The Group has 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 was completed during the year ended December 31, 2023, additional expected costs due to fulfilment of infrastructure-related obligations are being reflected in construction costs.



**23. Contingent Liabilities and Commitments (cont'd)**

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.

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 September 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.

As of September 30, 2024, in relation to construction of mixed-use building at Nokbeon-dong performed by the Group, the land and accompanying buildings are pledged as collateral and surface rights for the land by Korea Land & Housing Corporation and the maximum amount of claims related thereto is ₩ 15,341 million.

During the year ended December 31, 2022, the Group has reached agreement with Bando Engineering & Construction Co., Ltd. to resolve the increase in construction costs due to the permission for change regarding the new construction of Sangbong-dong residential and commercial complexes through arbitration judgement ordered by Korea Commercial Arbitration Board in future, under the agreement. For prompting the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in 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 September 30, 2024.

During the nine-month period ended September 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 September 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 September 30, 2024.

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



**23. Contingent Liabilities and Commitments (cont'd)**

According to the project finance loan agreement for the Gangnam station business complex development project as of September 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 September 30, 2024 and 2023 (Unaudited)



### 24. Cash Flows

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

<i>(in millions of Korean won)</i>	September 30, 2024	September 30, 2023
Profit for the Nine-month period ended September 30	₩ 839,853	₩ 809,441
Operating profit from continuing operations	845,126	814,968
Operating loss from discontinued operation	(5,273)	(5,527)
Adjustments:		
Employee welfare	10,828	5,737
Retirement benefits	36,038	29,884
Loss on valuation or obsolescence of inventories	8,791	7,112
Depreciation	161,698	157,400
Amortization	22,982	22,005
Reversal of impairment loss on trade and other receivables	(20,901)	(11,236)
Loss on foreign currency translation	37,554	57,423
Loss on valuation of derivatives	21,489	22,374
Loss on disposal of property, plant and equipment	347	3,003
Loss on impairment of property, plant and equipment	908	7,244
Loss on disposal of intangible assets	504	284
Loss on impairment of intangible assets	266	405
Loss on disposal of investment properties	196	59
Other expenses, etc	9,607	3,465
Finance cost	41,148	47,983
Share based payment expense	1,059	119
Income tax expense	273,336	312,848
Gain on foreign currency translation	(73,944)	(157,592)
Gain on valuation of derivatives	(12,657)	(5,988)
Gain on disposal of property, plant and equipment	(2,612)	(1,657)
Gain on disposal of intangible assets	(30)	(3)
Gain on disposal of right-of-use assets	-	(2)
Gain on disposal of investment properties	(13,860)	(6,823)
Other income, etc.	(10,402)	(8,702)
Finance income	(117,293)	(105,218)
Increase of investments in associates and joint ventures due to share of net gain/loss	(15,035)	(8,075)
Changes in working capital:		
Decrease (increase) in trade and other receivables	91,784	(417,456)
Decrease (increase) in derivatives	(11,341)	13,587
Decrease in inventories	121,813	131,635
Increase in accrued tobacco excise and other taxes	(146,530)	(174,849)
Increase in advance payments	(141,950)	(106,177)
Decrease (increase) in prepaid expenses	(50,539)	11,845
Increase in trade and other payables	31,568	435,366
Increase in advance receipts	70,691	9,261
Increase in tobacco excise and other taxes payable	69,726	185,151
Decrease in provision for site restoration	(169)	(83)
Increase (decrease) in net defined benefit liabilities (assets)	(4,053)	(621)
Cash generated from operations	₩ 1,230,870	₩ 1,269,149

# KT&G Corporation and its subsidiaries

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



## 25. Discontinued Operations

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

(a) Details of profit or loss from discontinued operation for each of the nine-month periods ended September 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(5,363)	(5,356)
Operating loss	(5,363)	(5,356)
Other income	-	266
Other expense	-	(518)
Finance income	90	81
Finance costs	-	-
Loss on discontinued operation, before tax	(5,273)	(5,527)
Income tax expense	-	-
Loss on discontinued operation, after tax	(5,273)	(5,527)
Exchange differences on translating foreign operations	(862)	(2,308)
Total comprehensive loss on discontinued operation	₩ <u>(6,135)</u>	₩ <u>(7,835)</u>

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

(b) Details of cash flows from discontinued operation for each of the nine-month periods ended September 30, 2024 and 2023 are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Cash flows from operating activities	₩ (3,446)	₩ (2,911)
Cash flows from investing activities	80	33
Cash flows from financing activities	(716)	(714)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	413	995
	₩ <u>(3,669)</u>	₩ <u>(2,597)</u>

**26. Events After the Reporting Period**

On October 15, 2024, the Group retired all treasury shares (3,610,000 shares, ₩ 385,373 million) acquired from August 9, 2024 to October 7, 2024 for the purpose of retirement.

According to the resolution of Board of Directors made on November 7, 2024, the Group plans to acquire and retire 1,350,000 shares of its treasury stocks in 2024 through trading on the floor.

On October 8, the Group issued ₩ 310,000 million of bearer-type interest unsecured bonds of KT&G (4-1<sup>st</sup> to 4-3<sup>rd</sup>) for the acquisition of construction-in-progress.

During October 2024, the Group invested USD 47,282 thousand to KT&G Kazakhstan LLP, a subsidiary.

During October 2024, the Group lent USD 10,000 thousand to KT&G Global Kazakhstan LLP, a subsidiary.