IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the following Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THIS DOCUMENT AND THE SECURITIES REFERENCED HEREIN MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES A PUBLIC OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your Representation: In order to be eligible to view the following Offering Circular or make an investment decision with respect to the securities, investors must be outside the U.S. By accepting the e-mail and accessing the following Offering Circular, you shall be deemed to have represented to us that (1) the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and, to the extent that you purchase the securities described in the following Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to the delivery of such Offering Circular and any amendments and supplements thereto by electronic transmission.

You are reminded that the following Offering Circular has been delivered to you on the basis that you are a person into whose possession the following Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the following Offering Circular to any other person. If this is not the case, you must return this Offering Circular to us immediately.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriter or such affiliate on behalf of KT&G Corporation (the "**Issuer**") in such jurisdiction.

The following Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of the Issuer or Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and UBS AG Hong Kong Branch (collectively, the "**Managers**"), or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



KT&G CORPORATION

(incorporated with limited liability under the laws of the Republic of Korea)

U.S.$300,000,000 4.875 per cent. Senior Unsecured Notes due 2030
Issue Price: 99.854%

The U.S.$300,000,000 4.875 per cent Senior Unsecured Notes due 2030 (the "**Notes**") will be issued by KT&G Corporation (the "**Issuer**"). The Notes constitute direct, general and unconditional obligations of the Issuer which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for such as may be preferred by mandatory provision of applicable law).

The Notes will bear interest from and including 21 July 2026 (the "**Issue Date**") at a rate of 4.875 per cent. Interest will be payable semi-annually in arrear on 21 January and 21 July of each year (each an "**Interest Payment Date**," with the first Interest Payment Date falling on 21 January 2027 in respect of the period from and including the Issue Date to but excluding such Interest Payment Date).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on 21 January 2030 (the "**Maturity Date**"). The Notes are subject to redemption, in whole but not in part, at their outstanding principal amount together with any accrued but unpaid interest thereon, in the event of certain changes to tax laws. See "*Terms and Conditions of the Notes – Redemption and Purchase*."

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 4.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering circular (the "**Offering Circular**"). Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and are being offered and sold outside the United States in reliance on Regulation S ("**Regulation S**") under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*."

The Notes are expected to be rated "A3" by Moody's Investors Service, Inc. ("**Moody's**") and "A-" by S&P Global Ratings, a division of S&P Global, Inc. ("**S&P**") and the Issuer is rated "A3" by Moody's and "A-" by S&P. The rating of the Notes does not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organisation. Such rating should be evaluated independently of any other rating of the Notes, the Issuer's other securities or the Issuer.

The Notes will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 21 July 2026 with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Certificate.

Joint Bookrunners and Lead Managers

Citigroup **HSBC** **UBS**

The date of this Offering Circular is 13 July 2026.

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You should rely only on the information contained in this Offering Circular. None of the Issuer or the Managers (as defined in "*Subscription and Sale*") has authorised anyone to provide you with information that is different or make any representation other than as contained in this Offering Circular in connection with the offering of the Notes. If anyone provides you with different or inconsistent information, you should not rely on it. The contents of the Issuer's website do not form any part of this Offering Circular.

You should assume the information in this Offering Circular is accurate only as of the date of this Offering Circular or such other date as specified herein. The business, financial condition, results of operations and prospects of the Issuer may have changed since that date. Neither the delivery of this Offering Circular nor any sale of the Notes made in connection with this Offering Circular will, under any circumstances, constitute a representation or create any implication that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or that there have been no changes in the affairs of the Issuer since the date of this Offering Circular. Statements contained in this Offering Circular as to the contents of any contract or other documents referred to in this Offering Circular may not set forth all of the terms and conditions of such contracts or other documents.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of the Notes, including the merits and risks involved. The Issuer is not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. This Offering Circular should not be considered as a recommendation or constituting an invitation or offer by the Issuer or the Managers that any recipient of this Offering Circular should purchase the Notes. You should not construe the contents of this Offering Circular as legal, business, accounting or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

The Issuer has furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Managers or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Managers or any of their respective affiliates or advisers. The Managers assume no responsibility for the accuracy, adequacy, reasonableness or completeness of any of the information contained in this Offering Circular or any other information (financial, legal or otherwise) provided by the Issuer in connection with the issue or distribution of the Notes or the future performance of the Notes. To the fullest extent permitted by law, none of the Managers accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Managers or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or any of their affiliates or advisers in connection with investigation of the accuracy of such information or such person's investment decisions.

This Offering Circular may only be used where it is legal to sell the Notes. None of the Issuer and the Managers is making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come must inform themselves about and observe these relevant restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

This Offering Circular is confidential. This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Circular. This Offering Circular is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Notes. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised and any disclosure of any of its contents or use of such information for any purpose other than making an investment decision, without the prior written consent of the Issuer, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

The Notes are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state securities laws pursuant to a registration statement or an exemption from registration. Any investor who purchases the Notes will be deemed to have made acknowledgements, representations, warranties and agreements intended to restrict the resale or other transfer of the Notes, as set forth under "*Subscription and Sale – Transfer Restrictions.*" As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

UK MiFIR PRODUCT GOVERNANCE – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Important Notice to Prospective Investors

Prospective investors should be aware that certain intermediaries in the context of this offering, including all of the Managers, are "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order, prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is

an asset management arm affiliated with any Manager, such prospective investor should so indicate when placing an order if it is for a fund or portfolio where the Manager or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to this offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order." If a prospective investor is otherwise affiliated with any Manager, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should so indicate to the relevant Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order." Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to this offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Managers and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

In connection with this offering, any of the Managers appointed and acting in its capacity as stabilisation manager (the "Stabilisation Manager") (or person(s) acting on its behalf) may, subject to all applicable laws, rules and regulations, over-allot Notes or effect transactions that stabilise or maintain the market price of the Notes at a higher level than the Notes might otherwise achieve in the open market for a limited period of time after the Issue Date. However, there is no assurance that the Stabilisation Manager (or person(s) acting on its behalf) will undertake stabilisation action. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. For a description of these activities, see "*Subscription and Sale.*"

Notice to investors in Singapore: By accepting this Offering Circular, if you are an investor in Singapore, you: (I) represent and warrant that you are either (1) an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore (the "SFA")) pursuant to Section 274 of the SFA; or (2) an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA, and (II) agree to be bound by the limitations and restrictions described herein.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a corporation with limited liability organised under the laws of Korea. All of the officers and directors of the Issuer named in this Offering Circular reside in Korea, and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States.

As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or the Issuer in U.S. courts judgments predicated upon civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

AVAILABLE INFORMATION

A copy of the Fiscal Agency Agreement related to the Notes (the "**Fiscal Agency Agreement**") will be on file and available for inspection at the specified office of the Fiscal Agent (as defined in this Offering Circular) upon prior written request during normal office hours. In accordance with the Notes and the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Notes or, in certain cases, arrange for the mailing to such holders, certain documents or communications received from the Issuer. See "*Terms and Conditions of the Notes.*"

PRESENTATION OF FINANCIAL INFORMATION

The Issuer maintains its financial books and records and prepares its financial statements in Won in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("**K-IFRS**"). Unless otherwise stated, the financial data of the Issuer contained in this Offering Circular as of and for the years ended 31 December 2023, 2024 and 2025 are derived from the Issuer's audited consolidated financial statements included in this Offering Circular, which have been prepared in accordance with K-IFRS. The financial data of the Issuer contained in this Offering Circular as of and for the three months ended 31 March 2025 and 2026 are derived from the Issuer's unaudited interim consolidated financial statements included in this Offering Circular, which have been prepared in accordance with K-IFRS 1034 *Interim Financial Reporting*.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to the "**Issuer**" or the "**Company**" in this Offering Circular are references to KT&G Corporation, or KT&G Corporation and its consolidated subsidiaries collectively, as required or as indicated by the context. All references to the "**Group**" are references to the Issuer and its consolidated subsidiaries collectively. All references to "**Holders**" are references to the holders of the Notes from time to time.

All references to "**Korea**" contained in this Offering Circular are references to The Republic of Korea. All references to the "**Government**" are references to the government of Korea. All references to "U.S." and the "**United States**" are references to the United States of America. All references to "Singapore" are references to the Republic of Singapore. In this Offering Circular, all references to "**Won**" or "**₩**" are to the lawful currency of Korea, all references to "**U.S. dollar**", "**U.S.$**" or "**US$**" are to the lawful currency of the United States and all references to "**Euro**" are to the lawful currency of the European Union. For the reader's convenience, certain Won amounts in this Offering Circular have been translated into U.S. dollars at the market average exchange rate, announced by Seoul Money Brokerage Services, Ltd. in Seoul, between Won and dollars, rounded to the nearest tenth of one Won (the "**Market Average Exchange Rate**"). Unless otherwise stated, the translations of Won into U.S. dollars have been made at the Market Average Exchange Rate in effect on 31 March 2026, which was Won 1,513.4 to U.S.$1.00. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any

particular rate, or at all. For historical information regarding the rate of exchange between the Won and the U.S. dollar, see "*Exchange Rates.*" In this Offering Circular, where information has been prepared in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, actual numbers may differ from those contained herein due to rounding. All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain "forward-looking statements" that are based on the Issuer's current expectations, assumptions, estimates and projections about the industries that the Issuer is in. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "estimate", "expect", "intend", "target", "seek", "aim", "contemplate", "project", "plan", "goal", "should" and similar expressions or the negatives thereof. Those statements include, among other things, the discussions of the Issuer's business strategy and expectations concerning their market position, future operations, cash flows, margins, profitability, liquidity and capital resources. Reliance on any forward-looking statement involves risks and uncertainties, and although the Issuer believes that the assumptions on which the forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in "*Risk Factors.*" In light of these and other uncertainties, you should not conclude that the Issuer will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. The Issuer will not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances, except as required by law.

SUMMARY

*The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" (the "**Conditions**"). Terms used and not otherwise defined in this summary have the meaning given to them in the Conditions.*

Issuer	KT&G Corporation, a corporation with limited liability established under the laws of Korea.
Notes	U.S.$300,000,000 4.875 per cent Senior Unsecured Notes due 2030 (the "**Notes**").
Issue Price	99.854 per cent. of the principal amount of the Notes.
Issue Date	21 July 2026.
Interest Commencement Date	21 July 2026.
Interest Payment Date	21 January and 21 July of each year, commencing on 21 January 2027. For a further description of payments of interest on the Notes, see "*Terms and Conditions of the Notes – Payments.*"
Rates of Interest	4.875 per cent. per annum, from and including the Issue Date, to but excluding, the Maturity Date, payable semi-annually in arrear.
Day Count Fraction	30/360.
Maturity Date	21 January 2030 (the "**Maturity Date**").
Form and Denomination	The Notes will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Upon issue, the Global Certificate will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream.
Redemption at Maturity Date	Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on the Maturity Date.
Redemption for Tax Reasons	The Issuer may redeem the Notes in whole but not in part, at their outstanding principal amount together with any accrued but unpaid interest thereon, in the event that the Issuer is obliged to pay additional amounts provided in Condition 8 of the *"Terms and Conditions of the Notes"*.

Taxation	All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Korea, unless the withholding or deduction of such taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of additional amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of the withholding or deduction.
Negative Pledge	The Notes will contain a negative pledge provision given by the Issuer as described in Condition 4 of the "*Terms and Conditions of the Notes*".
Status of the Notes	The Notes constitute direct, general and unconditional obligations of the Issuer which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for such as may be preferred by mandatory provision of applicable law).
Governing Law	The Notes are governed by, and will be construed in accordance with, the laws of England.
Rating	The Notes are expected to be rated "A3" by Moody's and "A-" by S&P. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by the assigning rating organisation.
Fiscal Agent	Citicorp International Limited.
Paying Agent, Registrar and Transfer Agent . . .	Citibank, N.A., London Branch.
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. There can be no assurance, however, that the Issuer will obtain or be able to maintain a listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of U.S.$200,000.
Use of Proceeds	The Issuer expects to use the net proceeds from the offering of the Notes for general corporate purposes. See "*Use of Proceeds*."
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. For additional selling restrictions in relation to other jurisdictions, see "*Subscription and Sale.*"

Clearance and Settlement	The Notes have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS3428230844 Common Code: 342823084
LEI.	988400ZJV6ISYBLQX875

LISTING APPLICATION

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters set out in this Offering Circular, the following factors:

Risks relating to the Issuer

Difficult conditions in the Korean and global economy could adversely affect the Issuer's profitability, liquidity and asset quality.

Most of the Issuer's assets are located in, and the Issuer generates most of its income from, Korea. As a result, the Issuer's business and profitability are subject to political, economic, legal and regulatory risks specific to Korea, many of which are beyond the Issuer's control, including the deterioration of key macro- and micro-economic indicators such as exports, personal expenditure and consumption, unemployment rates, demand for business products and services, debt service burden of households and businesses, the general availability of credit and the asset value of real estate and securities. Certain sections of the Korean economy continue to show signs of sluggishness in part due to weak consumer confidence, consumer spending and corporate investment, and its outlook for 2026 and beyond remains uncertain. Market turmoil and economic downturn, particularly in Korea, could materially adversely affect the liquidity, and businesses and/or financial conditions of the Issuer's customers, which in turn result in fewer sales in each of the Issuer's main business segments.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In light of the ongoing general economic weakness and the trade disputes between the United States and China and between Korea and Japan, the slowdown of economic growth in China and other major emerging market economies and the hostilities in the Middle East following the Israel-Hamas war and Iran-Israel conflict, among others, significant uncertainty remains as to the global economic prospects in general and such factors have adversely affected, and may continue to adversely affect, the Korean economy and in turn on the Issuer's business and profitability, as a result of, for instance, a decrease in consumer spending due to dampened consumer confidence. In addition, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, and there is no guarantee that similar currency fluctuation will not occur again in the future. See *"Exchange Rates"*. Any future deterioration of the global economy could adversely affect the Issuer's business, financial condition and results of operations.

Economic downturns may put pressure on the Issuer's revenue from its tobacco business due to the weakening of consumer spending power and thus demand, as well as shifts in smokers' purchases to brands in lower price ranges or different categories. Tobacco demand could decrease depending on economic conditions, other societal conditions, growing awareness about the health risks associated with smoking, trends in regulations and price rises due to tax increases and other factors, although the trends in demand will vary from market to market. These trends may in turn undermine the Issuer's strategy to grow its revenue in tobacco operations. Any of these factors may adversely affect the Issuer's financial condition and operating results.

Fluctuations in currency and exchange rates affect the Issuer's operating results.

The Issuer conducts some of its business in currencies other than Won, such as the local currencies of other countries in which it operates. Currency fluctuations may, therefore, adversely affect the Issuer's operating results.

While the Issuer prepares its consolidated financial statements in Won, its subsidiaries outside Korea prepare their financial statements in various other currencies. Therefore, changes in such foreign currencies' exchange value against Won affect its reported earnings. In general, a devaluation of such foreign currencies relative to Won would have a net negative impact on the Issuer's overall reported operating results. For example, for the tobacco business the Issuer pays a substantial amount in U.S. dollars for non-Korea origin tobacco leaf. While the Issuer enters into hedging transactions, such as

derivatives or issuing debt in currencies other than Won, to partially offset the currency fluctuation risk in its business transactions, hedging will not completely eliminate those risks, and the Issuer remains exposed to the effects of currency fluctuations.

Furthermore, the Issuer holds financial assets, such as bank deposits and corporate bonds, and financial liabilities, such as bank loans and bonds. The fluctuation of interest rates pertaining to these assets and liabilities may affect the performance and financial position of the Issuer as these fluctuations affect its interest income and interest expenses and the price of financial assets and financial liabilities.

Increases in excise, consumption or other taxes on tobacco products in markets in which the Issuer operates may adversely affect sales of tobacco products and profitability.

Increases in tobacco-related taxes in Korea and other countries around the world are considered as a source of public finance and a measure to promote public health. If an increase occurs in the tax applicable to tobacco products, in most cases it is difficult for the Issuer to absorb such tax increases through improved operational efficiency. The Issuer thus typically seeks to increase the retail price of tobacco products. However, it may be difficult to fully pass on the cost of such tax increases to consumers without undermining sales volume and ultimately the Issuer's profitability. Reflecting part or all of a tax increase through an increase in the retail price may reduce consumption or cause demand to shift toward lower priced products, different categories or to illicit products such as contraband and counterfeit products, while absorbing a tax increase without a retail price increase would directly reduce the Issuer's profitability. Therefore, in order to maintain the Issuer's profitability, any retail price increase typically needs to be greater than the amount of the applicable tax increase to offset these adverse reactions on the part of consumers. In considering any price increase, the Issuer therefore must consider market conditions, including the potential impact on demand and the expected reactions of competitors based on historical patterns.

Significant or unexpected increases in, or the introduction of new, tobacco-related taxes or minimum retail selling prices, changes in relative tax rates for different tobacco and nicotine products or adjustments to excise have in the past resulted, and may in the future result, in the need for the Issuer to absorb such tax increases due to limits in its ability to increase prices, an alteration in the sales mix in favour of value-for-money brands or products, or growth in illicit trade, each of which could impact pricing, sales volume and profit for the Issuer's products. Significant or unexpected increases of tobacco-related taxes could also impact the Issuer's ability to deliver the corporate purpose of harm reduction.

The Issuer's ability to effectively adjust to an increase in tobacco-related tax would be particularly limited if such increase was implemented at a timing or frequency the Issuer did not expect, by a margin wider than it expected in a particular market, or in a jurisdiction it did not anticipate.

The Issuer has in the past experienced tobacco-related tax increases in Korea and other jurisdictions and further tax increases may be announced in various markets. In Korea, tobacco is taxed on a specific tax basis rather than an ad valorem tax basis. As of 2026, tobacco-related taxes for conventional cigarettes ("**CCs**") accounted for approximately 73.8% of the consumer price, including individual consumption tax (national tax), tobacco tax and Local Educational Taxation (local tax).

Tobacco-related taxes, including individual consumption tax and tobacco tax, have been maintained in Korea for 11 years since the last significant increase on January 1, 2015, and have remained unchanged since then. There are no realistic plans to increase tobacco-related taxes being discussed by the Ministry of Finance and Economy ("**MOFE**") and the Ministry of the Interior and Safety, the ministries responsible for tobacco-related taxes. However, considering that tobacco-related taxes have been raised at approximately 10-year intervals over the past period, there is a possibility that discussions on raising tobacco-related taxes may begin later in 2026.

Any future decline in the demand for tobacco products caused by increases in applicable taxes could have an adverse effect on the Issuer's results of operations and financial conditions and cause the Issuer to fail to deliver on its strategic growth plans.

In addition, changes in local legislation related to liquid nicotine import duties may increase next generation product ("NGP") production costs, which may increase end market pricing and reduce demand. Furthermore, the exposure of sensitive trade secrets can lead to competitive disadvantages and further negatively impact the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

Any decrease in demand for tobacco products in certain key markets, including Korea, may negatively and disproportionately affect the Issuer's operating results.

While the Issuer's products are sold in various markets around the world, a decrease in demand for tobacco products in one or more key markets may disproportionately affect the Issuer's operating results and financial condition. Demand for tobacco products in a particular market may decline due to various factors unique to each geographic region or jurisdiction, such as an economic contraction, rising health awareness, increases in tobacco prices, tightening regulations or a combination of any of these or other factors. For the Issuer's tobacco business, demand contraction in any of its key markets may negatively and disproportionately affect its operating results.

The Issuer may be unable to predict consumers' changing behaviours or launch innovative products that offer tobacco and nicotine consumers meaningful value-added differentiation.

The Issuer continues to develop and roll out its NGP portfolio which requires significant investment. The Issuer may be unsuccessful in developing and launching innovative products or maintaining and improving the quality of existing products across CCs and NGPs that offer consumers meaningful value-added differentiation. The Issuer may fail to keep pace with innovation in its sector or changes in consumer expectations and is also exposed to the risk of an inability to build a sufficiently strong brand equity through social media and other digital tools to successfully compete. There are potential bans and restrictions in key markets on using social media and other platforms to advertise and communicate. Competitors may be more successful in predicting changing consumer behaviour or better able to develop and roll out consumer-relevant products and may be able to do so more quickly and at a lower cost.

The inability to timely develop and roll out innovations or products in line with consumer demand, including any failure to predict changes in tobacco consumer and societal behaviour and expectations and to fill gaps in the product portfolio, as well as the risk of poor product quality, could lead to missed opportunities, under- or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of the Issuer's consumer base or brand equity.

Restrictions on packaging and labelling or on promotion and advertising could impact the Issuer's ability to communicate its innovations and product differences to tobacco consumers, leading to unsuccessful product launches. An inability to provide robust scientific results sufficient to substantiate health-related product claims poses a significant threat to the ability to launch innovative products and comply with emerging regulatory and legal regimes.

In addition, the Issuer devotes considerable resources to the research and development of innovative products that may have the potential to reduce the risks of smoking-related diseases. The complex nature of research and development programmes necessary to satisfy emerging regulatory and scientific requirements creates a substantial risk that these programmes will fail to demonstrate health-related claims regarding NGPs or to achieve tobacco consumer, regulatory and scientific acceptance.

Furthermore, the regulatory environment impacting non-combustible tobacco products, vapour products and other non-tobacco nicotine products, including classification of products for regulatory and excise purposes, is still developing and it cannot be predicted whether regulations will permit the marketing of

such products in any given market in the future. Categorisation as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and costs and significantly undermine the commercial viability of these products. Alternatively, categorisation of any NGPs, as tobacco products for instance, could result in the application of onerous regulation, which could further stifle consumer interest.

The occurrence of any of the above effects could in turn have an adverse effect on the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

Global competition from other tobacco manufacturers may reduce the Issuer's market share and may adversely affect the Issuer's profitability.

The Issuer competes in various markets across the world with global tobacco manufacturers such as Philip Morris International Inc., British American Tobacco p.l.c., Imperial Brands PLC, Japan Tobacco Inc., as well as other local manufacturers. The Issuer's market share in each market can fluctuate in the short term due to one-time factors including the release of new products by the Issuer or its competitors or special promotion efforts related thereto. Market share can also fluctuate due primarily to the level of competition, regulation, pricing strategy, changes in smokers' preference, social interests in health, brand equity or economic conditions in each market. If the Issuer's market share declines due to these or other factors in significant markets, it would negatively affect the Issuer's financial condition and operating results. Additionally, markets in which the Issuer operates sometimes experience events such as a brand repositioning or a price cut in pursuit of market share gains. Such initiatives may adversely impact the Issuer's profit margins in individual markets, negatively affecting the Issuer's financial condition and operating results.

In a tough competitive environment, factors such as market size reduction, customer down-trading, illicit trade and competitors aggressively taking market share through price re-positioning or price wars generally reduce the overall profit pool of the market and may impact delivery of the Issuer's profits. This may also lead to a decline in sales volume, loss of market share, impact delivery of the Issuer's environmental, social and governance ("**ESG**") agenda, erosion of its portfolio mix and reduction of funds available for investment in growth opportunities.

The Issuer's operating results may be adversely affected by instabilities in the procurement of raw materials.

The Issuer has a global manufacturing footprint and procures various types of raw materials from Korea and various countries around the world, including, but not limited to, Indonesia. The status and costs of procurement are affected by factors such as weather and other natural phenomena, the balance between supply and demand, the impact on the supply chain arising from an increase in country risk and fluctuations in exchange rates and prices (including due to inflation). Furthermore, there is the risk that increases in transport costs will be further exacerbated going forward due to increasing wage costs in the logistics industry, caused by labour shortages, and rising crude oil prices. In the event that the Issuer is unable to stably secure the necessary amount of raw materials, or in the event that raw material procurement costs and costs to transport products rise, the Issuer's business performance may be negatively affected due to being unable to guarantee the stable supply of products and other factors, or if such supply is obtained, it may be at a higher cost.

The availability and price of various commodities required in the manufacture of the Issuer's products fluctuate. Raw materials and other inputs used in the Issuer's business, such as wood pulp and energy, are commodities that are subject to price volatility caused by numerous factors, including inflation, political influence, market fluctuations and natural disasters.

Restricted availability and price volatility of commodities may result in supply shortages and unexpected increases in costs for raw materials and packaging for the Issuer's products, which may affect the Issuer's results of operations and financial condition.

The Issuer has not always been able to, and in the future may not be able to, increase prices to offset increased costs without suffering reduced sales volume and revenue. In the absence of compensating for increased costs through pricing, significant increases in raw material and packaging costs above inflation will impact product margins, leading to lower profits and negatively affecting the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

The Issuer purchases significant volumes of packed leaf each year. Tobacco leaf, as any other agricultural commodity, can be impacted by a variety of external factors. Like any other agricultural supply chain, it can be particularly vulnerable to a range of challenges, including climate change, weather-related events, such as drought, flood and other natural disasters, increasing demand for land and natural resources, rural poverty, social inequality and ageing farmer populations. Tobacco production in certain countries is also subject to a variety of controls, including regulation affecting farming and production control programmes, and competition for land use from other agriculture commodities. Such controls and competition can further constrain the production of tobacco leaf, raising prices and reducing supply.

Restricted availability of tobacco leaf may prevent the Issuer accessing sufficient tobacco leaf that meets its volume, quality and sustainability requirements. This could lead to an impact on the quality of the Issuer's products to a level that may be perceptible by consumers and may impact the Issuer's ability to deliver on consumer needs. The Issuer's sustainability commitments may restrict the sources the Issuer can buy from, which would result in an imbalance in supply and demand potentially causing incremental tobacco prices. Higher tobacco leaf prices would result in increased raw material costs and have an adverse effect on the Issuer's financial condition. The Issuer may also experience reputational damage from not adequately managing its sustainability priorities like climate change and the protection of natural resources, including forests, in the Issuer's leaf supply chain, which may restrict suppliers willing to do business with the Issuer.

The Issuer engages in certain international activities and dealings, including certain operations in, and dealings relating to, Russia, that may be subject to or otherwise affected by economic sanctions administered and enforced by various jurisdictions.

The U.S. government, including the U.S. Department of the Treasury's Office of Foreign Assets Control administers and enforces certain laws and regulations, or U.S. primary sanctions, that impose prohibitions or restrictions on dealings with or related to certain designated countries and territories, governments, entities and individuals, and entities majority-owned by such parties, that take place within U.S. jurisdiction. U.S. primary sanctions include territorial sanctions targeting specific countries and jurisdictions; blocking sanctions, which generally prohibit U.S. persons from engaging in transactions or other dealings with or involving blocked persons or the property or interests in property of blocked persons; and non-blocking prohibitions and restrictions that target specific kinds of dealings, including, for example, dealings in debt or equity issued by certain designated parties after certain dates. U.S. primary sanctions are subject to frequent and unpredictable changes. For example, as a result of the ongoing Russia-Ukraine war, the United States has adopted new, additional and/or enhanced direct sanctions targeting Russia, and persons located in Russia. Although U.S. primary sanctions generally are not applicable to non-U.S. persons (although certain U.S. primary sanctions programs do apply to non-U.S. subsidiaries of U.S. companies), non-U.S. persons can be held liable for violations of U.S. primary sanctions to the extent they participate in prohibited transactions within U.S. jurisdiction (including transactions, for example, involving U.S. goods, services or technology, U.S. persons, or U.S. dollar payments that are cleared through the U.S. financial system). To the extent the Issuer engages in transactions within U.S. jurisdiction, U.S. primary sanctions may apply to the Issuer and its dealings, and changes to U.S. primary sanctions may affect what dealings the Issuer can pursue or engage in, and/or what counterparties the Issuer can interact with.

In addition to U.S. primary sanctions, the United States maintains numerous secondary sanctions programs that provide the U.S. government with authority to impose a variety of sanctions on non-U.S. persons that engage in certain sanctionable activities, including certain dealings with U.S. sanctioned

persons, regardless of whether such activities occur within U.S. jurisdiction. The imposition of U.S. secondary sanctions is not automatic, and instead requires specific action by the U.S. government. In practice, U.S. secondary sanctions are highly discretionary and may be strongly influenced by political considerations, and accordingly, are difficult to predict. Non-U.S. parties that engage in sanctionable activities are potentially subject to a number of sanctions, including, among other things, the blocking of any property in the possession or control of U.S. persons in which the sanctioned party has an interest, and a prohibition on transactions or dealings with or involving such parties or property in which such persons have an interest if such transactions or other dealings are undertaken within U.S. jurisdiction. The Issuer's business and reputation could be adversely affected, for example, if the U.S. government were to determine that its activities, or the activities of any of its counterparties, involve sanctionable activity under U.S. secondary sanctions.

In addition to U.S. primary and secondary sanctions, other jurisdictions, including the European Union, the United Kingdom and Korea administer and enforce their own economic sanctions that target certain countries and territories, governments, entities and individuals in varying respects. Like the United States, some of these jurisdictions have adopted new, additional and/or enhanced sanctions targeting Russia in response to recent events. These sanctions may apply to the Issuer or its dealings, and changes to such sanctions may affect what dealings the Issuer can pursue or engage in, and/or what counterparties the Issuer can interact with.

Any violations of applicable sanctions by the Issuer could result in criminal, civil, and/or administrative liability for the Issuer, including potentially substantial fines and/or other criminal, civil, and/or administrative penalties, and the Issuer's reputation being adversely affected.

The Issuer believes that its dealings, including its business activities involving Russia (described below), are being conducted at all times in compliance with applicable sanctions. Although the Issuer intends to use its reasonable best efforts to maintain such compliance, the Issuer cannot guarantee that it will be in compliance in the future, particularly since the scope of such sanctions may be uncertain and such sanctions are subject to frequent and unpredictable changes.

The Issuer operates a subsidiary in Russia, KT&G Rus L.L.C., which was established in 2008 and had been engaged in the production of processed tobacco products, using raw materials imported from the Issuer's Korean headquarters or other overseas subsidiaries, in Russia under several KT&G brands, as well as the sale of processed tobacco products under several KT&G brands in Russia and nearby countries. For the year ended 31 December 2025 and the three months ended 31 March 2026, the Issuer's sales from Russia accounted for approximately 1.7% and 1.6% of the Issuer's total sales, respectively. Following the imposition of relevant sanctions targeting Russia by various countries, including the United States, the European Union and Korea, the Issuer has increased scrutiny of its compliance with applicable sanctions. Other than the payment of certain fees and taxes required to be made by KT&G Rus L.L.C. to the Russian Federal Tax Service, Federal Bailiff Service, Ministry of Internal Affairs, Social Fund of Russia, Federal Service for Supervision of Natural Resources Management and Federal Customs Service under Russian law, the Issuer does not have any dealings with the government of the Russian Federation, the Central Bank of the Russian Federation, or any state-controlled or privately-owned sanctioned entities, or any person or arrangement that is owned or controlled by any of the aforementioned entities. The Issuer continues to evaluate its business activities in, with, or involving Russia in light of recent developments and will only engage in additional business activities in, with, or involving Russia that are fully compliant with applicable sanctions.

The current geopolitical situation relating to Ukraine has resulted in a significant expansion of sanctions targeting Russia, as well as regulatory restrictions and countermeasures implemented by the Russian government. Although the situation remains fluid and it is difficult to predict the extent to which further sanctions will be imposed, additional sanctions or countermeasures could adversely affect the Issuer's business and results of operations. In addition, the Issuer's business and reputation could be adversely affected if the U.S. government were to determine that the Issuer's activities relating to Russia or other

jurisdictions or parties violated sanctions, to the extent such violation involved targeted activities under U.S. secondary sanctions or was within U.S. jurisdiction, or if any other government were to determine that the Issuer's activities violate other applicable sanctions.

Issuer's operating results may be adversely affected by disruptions to its supply chain and distribution channels.

The Issuer has adopted an increasingly global approach to managing its supply chain, including distribution channels. Disruption to the Issuer's supply chain may be caused by various factors, including, but not limited to disruption to suppliers' operations or to distribution channels, and the deterioration in the financial condition of a trading partner. The Issuer foresees a heightened level of risk of disruption in its NGP supply chain because it is multi-tiered and complex in sourcing and distribution. Such disruption may be caused by a cyber event, a global health crisis, political tensions, strikes, riots, civil commotion, a major fire, severe weather conditions or other natural disasters which affect manufacturing or other facilities of the Issuer's operating subsidiaries or those of their suppliers and distributors. In certain geographic areas where the Issuer operates, insurance coverage may not be obtainable on commercially reasonable terms, if at all. Coverage may be subject to limitations, or the Issuer may be unable to recover damages from its insurers.

Disruption may also be caused by spread of infectious disease (such as the COVID-19 pandemic) or by a deterioration/shortage in labour or union relations, disputes or work stoppages or other labour-related developments within the Issuer or its suppliers and distributors.

In addition, the Issuer's operating subsidiaries may not be able to establish or maintain relationships on favourable commercial terms with their suppliers and distributors. In some markets, distribution of the Issuer's products occurs through third-party monopoly channels, often licensed by governments. The Issuer may be unable to renew these third-party supplier and distribution agreements on satisfactory terms for many different reasons, including government regulations or sustainability considerations.

There are also some product categories for which the Issuer does not have surplus production capacity or where substitution between different production plants is impractical. This may cause further disruption to the Issuer's supply chain. Consolidation of global suppliers and certain distributors that control large geographies may reduce the Issuer's availability of alternatives and negatively impact the Issuer's negotiating power with key suppliers and distributors. These risks are particularly relevant in jurisdictions where the Issuer's manufacturing facilities are more concentrated or for certain product categories where production is more centralised.

Any disruption to the Issuer's supply chain and distribution channels could have an adverse effect on the results of operations and financial conditions of the Issuer through failures to meet shipment demand, contract disputes, increased costs, loss of market share and inability to reinvest into NGPs and support harm reduction agenda and cause the Issuer to fail to deliver on its strategic growth plans.

The NGP supply chain is a multi-tiered and complex environment with reliance on multiple factors, such as third-party suppliers' ability to upscale production in order to meet demand while maintaining product quality, dependency on single suppliers at various points in the chain and the Issuer's ability to build adequate consumables production capacity in line with product demand. The geographical spread of suppliers and customers exposes the Issuer to political and economic issues such as trade wars which may compromise the NGP supply chain. Given the developing nature of the NGP portfolio, there is also an enhanced risk that some products may not meet product quality and safety standards or may be subject to regulatory changes, leading to product recalls, which the Issuer has experienced in the past, or bans of certain ingredients or products. In addition, the NGP supply chain may be vulnerable to changes in local legislation related to liquid nicotine that could increase import duties. Furthermore, the NGP supply chain includes the development of sensitive trade secrets jointly with external design partners, which carries the risk of exposure of innovations to competitors.

Vulnerabilities in the NGP supply chain may impact the Issuer's ability to maintain supply and meet the current and future demand requirements across the NGP portfolio, potentially resulting in significant reputational harm and financial impact that may negatively affect the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans. Over-forecasting may also lead to write-offs and negatively impact working capital. The design of NGP devices may also prevent the scaling of commercial manufacturing, which will either restrict supply or increase the costs of production.

The Issuer's operating results may be adversely affected by environmental or violations of laws and regulations in the supply chain.

The Issuer's tobacco business, and its Health Functional Foods Business in particular, focuses on its supply chain, and appropriately maintaining and managing the supply chain is a significant matter for the Issuer's business activities. In recent years, the Issuer has expanded its business in various countries and regions of the world and so its supply chain has expanded and become more complex. In the event that environmental issues occur or laws and regulations are violated in the supply chain, the Issuer's business performance could be negatively affected due to factors such as a decline in public trust in the Issuer.

The legal and regulatory environment in which the Issuer operates could have a material adverse effect on the Issuer's business and earnings.

The Issuer's operations are heavily regulated and subject to various laws and regulations imposing various requirements and restrictions relating to supervision and regulation. Such regulation and supervision is primarily for the benefit and protection of the Issuer's customers, not for the benefit of investors in the Issuer's securities, and could limit the Issuer's discretion in operating its business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any licence or registration at issue, as well as the imposition of civil fines and criminal penalties. In addition, changes in the accounting rules or their interpretation could have an adverse effect on the Issuer's business and earnings. Such changes may be more restrictive or result in higher costs than current requirements or otherwise materially affect the Issuer's business, results of operations or financial conditions.

Historically, the Government has imposed sanctions on tobacco companies in respect of unlawful or unfair practices discovered in the course of its industry-wide inspection, imposed administrative fines on certain tobacco companies for collusive and anticompetitive practices, adopted a variety of amendments to existing laws and regulations governing the tobacco industry, and conducted special inspections of certain tobacco companies, among others.

The Issuer's inability to comply with regulatory requirements could have a material adverse effect on the Issuer's operations and on its reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted or that the Issuer will not be prohibited by laws from raising prices above certain desired levels, any of which could materially adversely affect the Issuer's business, financial condition or results of operations.

Changes in the economic, political, or regulatory environment could disrupt the Issuer's supply chain and/or its distribution capabilities. In addition, such changes could lead to loss of property or equipment that is critical to the Issuer's business in certain markets and difficulty in staffing and managing its operations, which could adversely affect its operating results. While the Issuer will continue to pursue geographic expansion to achieve long-term growth of its businesses, the realisation of any of the foregoing risks may adversely affect its financial condition and operating results.

Tobacco control measures are in place in nearly all markets in which the Issuer operates. Regulation for vapour and tobacco heated products is now widespread, while regulation of nicotine pouches is appearing in a growing number of markets. Such restrictions are introduced by legislation, regulations and/or voluntary agreements. Most tobacco and nicotine control measures can be categorised as follows:

- Category bans: including regulations that ban the sale, import, possession, or use of certain product categories, including entire bans on NGPs or novel products;

- Place: including regulations restricting consumption in private and public spaces (e.g. public place smoking or vaping bans, including restaurants and bars);

- Product: including regulations on the use of or testing for ingredients, product design and attributes (e.g. tar, nicotine, carbon monoxide ceilings, format restrictions, filter bans); flavour bans (including menthol); nicotine levels and low nicotine cigarettes; product safety (e.g. reduced cigarette ignition propensity standards); product disclosure (e.g. ingredients and emissions) and environmental impact (e.g. extended producer responsibility ("**EPR**") requirements for cigarette filters or biodegradable filter requirements);

- Packaging and labelling: including regulations on health warnings, dissuasive packaging, and other government-mandated messages; restrictions on the use of certain descriptors and brand names; requirements on pack shape, size, weight and colour; and mandatory plain packaging;

- Advertising, promotion and sponsorship: including partial or total bans on advertising, promotions, corporate communications and sponsorship, and online and direct engagement communication;

- Purchase: including regulations on where the products are sold, such as type of outlet (e.g. supermarkets, online and vending machines), radius or distance restrictions (e.g. certain radius or distance restrictions from a school), online sales bans, regulation regarding how they are sold and displayed (e.g. above the counter or under the counter) and minimum purchase age and increases thereto, including generational bans;

- Price: including regulations that have implications on prices and margins (e.g. excise taxes, minimum prices and import/export duties); and

- Responsibility: including regulations introducing EPR schemes on cigarette manufacturers to cover the cost to clean up cigarette waste and equipment-related cost sharing obligations to fight illicit trade.

The Issuer believes that further tobacco control and nicotine regulation (including regulation for both nicotine and non-nicotine heated products) is expected over the medium term in many of the Issuer's markets. Irresponsible behaviour or marketing practices of competitors (for example where there is a lack of appropriate regulation) or actions contrary to the regulations in certain markets, may cause reputational harm to the industry as a whole and may result in additional regulation or bans. Further, there is pressure on governments from international organisations and agencies, tobacco control non-governmental organisations, influential national regulators and the private sector (including philanthropists, pharmaceutical and security technology companies and social justice groups) to pursue regulatory policies and implement tobacco or nicotine product-related regulation which limit the commercial viability of tobacco and nicotine products or prohibit products completely. Regulators may be lacking in understanding of NGP products and their role in tobacco harm reduction due to their novelty. These factors can lead to a lack of adequate or existing regulatory regimes or clear and appropriate product classifications.

In addition, the Issuer may fail to implement the right level of control measures or to maintain adequate standards of compliance with regulatory measures. For example, the Issuer's marketing activities may fail to comply with relevant laws and regulations.

Insufficient information, instruction and training in the relevant areas and a lack of knowledge of the existence and/or requirements of relevant regulations including tobacco and nicotine as well as other relevant regulations, such as battery or environmental regulation, or a failure to monitor, assess and implement the requirements of new or modified regulation, may increase these risks.

With respect to modern oral and other NGPs, regulatory frameworks currently follow divergent approaches. In certain markets, where there is an absence of adequate regulation, actions of irresponsible competitors may cause reputational harm to the category and result in outright bans or adverse regulation. In markets where there is a likelihood of tobacco, pharmaceutical or food regulatory classification, the category can be at risk of severe regulation or total ban.

The Issuer believes that there is a risk that tobacco and NGP products could be subject to increasingly stringent regulations, driven in part by developments arising from the 11th Conference of Parties ("**COP11**") to the WHO Framework Convention on Tobacco Control ("**FCTC**"). At COP11, Parties adopted several decisions aimed at advancing global tobacco control measures, including commitments to strengthen protections against environmental harm associated with tobacco products, increase domestic funding for tobacco-control programs and encourage 'endgame' policies for phasing out the use of tobacco and nicotine products.

Traditional Tobacco Products

With respect to tobacco and combustible products, many of the measures outlined in the FCTC have been or are in the process of being implemented through national legislation in many markets in which the Issuer operates, including recommendations for plain packaging and flavour bans. Since June 2011, the use of any wording, images or photographs on the product packaging or in advertisements that indicates the inclusion of flavour in tobacco has been banned in Korea. In May 2019, Ministry of Health and Welfare of Korea announced its intention to gradually ban the use of flavour; however there have been no amendments to the relevant regulations regarding the flavour ban in Korea. Further, various national or international regulatory regimes may seek to require the reduction of nicotine levels in tobacco products.

NGPs

With respect to NGPs, regulation is still evolving and frameworks for regulation and taxation vary from country to country. Some regulators have applied or are considering applying combustible tobacco products' restrictive regulatory framework to NGPs. Some jurisdictions have banned or are considering banning certain NGP products altogether.

Following reports of individuals experiencing acute respiratory injury in suspected association with vaping certain e-liquids (e-cigarette or vaping use-associated lung injury) and reports regarding vaping youth usage in the United States, stricter regulatory views gained momentum and were publicly supported by the WHO which continues to call on countries to ban or regulate novel nicotine products as tobacco. The United States, the EU and Canada are playing a leading role across all identified regulatory risks, including flavour regulations, advertising restrictions and nicotine limits, among others.

In Korea, the Tobacco Business Act, as amended (the "**Tobacco Business Act**") was further amended in April 2026 to expand the definition of "tobacco" from products made solely from tobacco to all products made from tobacco or nicotine. As a result, all nicotine-based products are now subject to the Korean National Health Promotion Act, which requires health warnings on packaging and imposes strict limits on their use, advertising and sales, including bans in certain facilities, such as schools, hospitals and government offices, as well as restrictions on sales to minors and online purchases. However, this change is not expected to have any material impact on the Issuer's business, as its existing cigarette and NGP products are already within the scope of the previous definition of "tobacco" under the Tobacco Business Act. Existing and future regulatory measures impacting one or more NGPs and/or traditional tobacco products could adversely affect volume, revenue and profits, as a result of: restrictions on the Issuer's ability to sell and differentiate its products or brands, leverage price, innovate, make scientific

claims, compete in future product categories and make new market entries; regulations (e.g. pharma or food) or total bans of tobacco and/or NGP products in certain markets; reduced margins due to increased operating costs; impediments to building or maintaining brand equity; and restrictions on the Issuer's ability to deliver, market and sell existing or new products responding to consumers' preferences. In addition, new (and changes to existing) regulation could lead to greater complexity, as well as higher production and compliance costs.

Regulations can also have an adverse impact on the Issuer's ability to compete within the tobacco, nicotine or NGPs industry and with illicit traders or legal operators exploiting legal and regulatory loopholes. Regulations could also lead to reduced consumer acceptability of new product specifications, leading to consumers seeking alternatives in illicit markets, especially where enforcement is lacking, such as in the case of the increase in illicit single-use devices in the United States market. Unclear or inadequate regulations can also lead to legal uncertainty, impacting the Issuer's position in the marketplace.

Any action by any government authority restricting the use of NGP products could also have an adverse effect on the operation and financial position of the Issuer and the possible failure of the Issuer's harm reduction objective and loss of confidence in the Issuer's ESG performance. These actions may have an adverse effect on the Issuer's results of operations and financial conditions and cause the Issuer to fail to deliver on its strategic growth plans.

In addition, considering the significant number of regulations that may apply to the Issuer's businesses across the world, the Issuer is and may in the future be subject to claims for breach of such regulations. Government authorities, organisations or even individuals may allege that the Issuer's marketing activities do not comply with the relevant laws and regulations. As such, the Issuer could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions, fines and penalties brought in connection with these allegations. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims and allegations. Each of these results may in turn have an adverse effect on the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

Restrictions on promotion, marketing, packaging, labelling and usage of tobacco products in any market in which the Issuer operates might reduce the demand for tobacco products and adversely affect the Issuer's operating results.

As a tobacco company, the Issuer is subject to substantial regulations globally that place various restrictions on the promotion, marketing, packaging, labelling and usage of tobacco products. For example, the Tobacco Business Act and related regulations contain restrictions on the sale of tobacco and nicotine products, including restrictions on advertising activities and a requirement that product packages contain warnings about the health risks associated with their consumption. Government guidelines and voluntary rules further restrict tobacco advertising and promotion. Indoor smoking restrictions are another area where the Issuer is experiencing increasing regulation. The National Health Promotion Act, amended as of June 2011, imposed a ban on indoor tobacco usage in certain public facilities, which has been fully effective since December 2012. However, there may be more legislative action in relation to passive smoking in the future, which further restricts smoking in public facilities.

Outside Korea, there is a similar trend toward increasingly restrictive regulation on the promotion, marketing, packaging, labelling, and use of tobacco products since the World Health Organisation's FCTC came into force in February 2005.

The purpose of the FCTC is to reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke. Its provisions include, among other things, price and tax measures to reduce the demand for tobacco, non-price measures to reduce the demand for tobacco (including protection from exposure to tobacco smoke) and regulation of the contents and emissions of tobacco products, disclosure to government authorities and the public of certain information on tobacco products,

packaging and labelling of tobacco products and their advertising, promotion and sponsorship) and measures aimed at the reduction of tobacco supply (including the prevention of illicit trade and further restrictions on sales to minors). Furthermore, various measures were taken relating to regulation of descriptive labelling, including the use of the terms "mild" and "light". Moreover, in November 2012, a protocol to eliminate illicit trade of tobacco products was adopted at the fifth session of the conference of parties to the FCTC.

In September 2018, the Protocol to Eliminate Illicit Trade in Tobacco Products to the World Health Organisation's Framework Convention on Tobacco Control entered into force after it received 40 ratifications. The Protocol introduces additional obligations for the parties to the Protocol to control the tobacco supply chain, by introducing, *inter alia*, requirements for licensing and for tracking and tracing of tobacco products.

Complete lists of the parties to both the FCTC and the Protocol are available from the UN Treaty Collection website.

The parties to the FCTC (including Korea and the EU) are obliged to develop, implement, periodically update and review comprehensive multisectoral national tobacco control strategies, plans and programmes, as well as formulate, adopt and periodically update and review strategies, plans and programmes for tobacco regulation. However, the content, scope and method of specific controls undertaken by the parties are ultimately legislated by each respective nation, catered to that nation's circumstances.

Examples of specific controls adopted by the parties to FCTC include the Australian Tobacco Plain Packaging Act which provides for strict standardised requirements applicable to packaging, including its colour, location, font size and style of the product's name and display of graphical health warnings, even though the FCTC does not stipulate the introduction of such requirements. A number of other countries have adopted or are considering a similar measure.

In the EU, the Tobacco Products Directive (2014/40/EU) (the "**Directive**") has been in force since May 2014. The Directive enhances and includes additional measures on how tobacco products can be manufactured, presented and sold. These measures include requirements as to packaging and labelling, such as 65 per cent. picture and health warnings on the front and back of packaging; a ban on characterising flavours for cigarettes and fine cut tobacco and a ban on ingredients which increase the toxicity and/or addictiveness of tobacco products; regulation of nicotine-containing products (for example, e-vapour) and smokeless tobacco products in a manner similar to how cigarettes are regulated, a continued ban on oral tobacco products, or snus, a prior notification requirement for novel tobacco products and the mandated development of a tracking and tracing system and security features to ensure that only compliant products are sold in the EU. All EU Member States have now implemented the Directive into national law. The prohibition of characterising flavours has been extended to heated tobacco products via secondary legislation. The Directive is now in the process of revision and new stricter rules may be expected from 2026. Since the UK's exit from the EU, the tobacco control regime there has remained closely aligned, as the domestic regulations implementing the Directive were retained in UK law following Brexit.

The Issuer expects that the level of restrictions on the promotion, marketing, packaging, labelling and usage of tobacco products will continue to increase globally. While the content, scope and method of the restrictions in each country will vary in accordance with implementation under each country's national law, the general tightening of tobacco-related regulations might have contributed to, and might continue to contribute to, diminishing brand value and reducing demand for tobacco products, which may adversely affect the Issuer's financial condition and operating results. Furthermore, any change in marketing methods could substantially increase the Issuer's marketing expenses and could lower its market share should the Issuer not be able to react to such changes in a timely and appropriate manner.

The Issuer is also increasingly subject to emerging, non-tobacco specific ESG regulations worldwide, ranging from recyclability and reusability of packaging, to supply chain due diligence, which could have an impact both on its supply chain operations, as well as on the design of its products.

Any claims relating to contamination of materials used in the Issuers business or to which the Issuer's products may become exposed may adversely affect the Issuer's operating results.

The Issuer's research and development and manufacturing processes may involve the controlled use of hazardous materials, including radioactive and bacteriological materials, and may produce hazardous waste. The Issuer cannot completely eliminate the risk of accidental contamination or discharge and any resultant injury from these materials or waste. Real estate properties that the Issuer has owned or used in the past or that the Issuer owns or uses now or in the future may contain undetected contamination resulting from the Issuer's activities or the activities of prior owners or occupants at those sites. Any claims relating to hazardous materials used in the Issuer's business or to which the Issuer's products may become exposed may adversely affect the Issuer's financial condition and operating results.

National and local laws and regulations around the world impose substantial potential liability for the improper use, manufacture, storage, handling and disposal of hazardous materials. The Issuer may be sued for any injury or contamination that results from its use or the use by third parties of these materials. The Issuer does not maintain insurance coverage for any such injury or contamination. In addition, The Issuer's reputation may be harmed by publicity related to any alleged or actual contamination or injury. The Issuer may incur significant expenses for compliance with environmental laws and regulations or for implementation of any voluntary measures related to hazardous materials. In addition, current or future environmental regulations may impair the Issuer's research, development and production efforts.

The Issuer may experience product contamination, whether by accident or deliberate malicious intent, during supply chain or manufacturing processes, or may otherwise fail to comply with the Issuer's quality standards. The Issuer may also receive threats of malicious tampering.

Product contamination or threats of contamination may expose the Issuer to significant costs associated with recalling products from the market or temporarily ceasing production. In addition, tobacco consumers may lose confidence in the specific brand affected by the contamination, resulting in reputational damage and a loss of sales volume and market share. The Issuer could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions brought in connection with a contamination of the Issuer's products. Each of these results may in turn have an adverse effect on the Issuer's results of operations, financial condition and reputation and cause the Issuer to fail to deliver on its strategic growth plans.

Increases in the illegal trade of tobacco products could adversely affect the Issuer.

Illicit trade in the form of counterfeit products, diversion of genuine products from the Issuer, and locally manufactured products, which do not comply with applicable regulations and/or in which applicable taxes are evaded, represent a threat to the legitimate tobacco industry, including NGPs products (including vapour products, heated products and modern oral products). Factors such as increasing levels of taxation and inflation, economic downturn and increased cost of living, lack of law enforcement, appropriate penalties and weak border control are encouraging more tobacco and NGP consumers to switch to illegal cheaper tobacco and NGP products and are providing greater rewards for counterfeiters and smugglers. The high profit margin of tobacco products and cross-border price gaps arising from different taxation systems and tax levels among countries are believed to be motivations for illicit trade, and historical evidence shows that illicit trade in a market tends to increase after a steep tax increase. Regulatory restrictions such as plain packaging or graphic health warnings, display bans, flavour or ingredient restrictions and increased compliance costs further disadvantage legitimate industry participants by providing competitive advantages to illicit manufacturers and distributors of illicit tobacco and NGP products.

Illicit trade has an adverse effect on the Issuer's overall business and reputation. Illicit trade can damage brand equity, which could undermine the Issuer's investment in trade marketing and distribution, increase operational costs where products may become commoditised, make it more difficult to adhere to underage prevention and decrease volumes sold. The negative impact on the Issuer's business performance also includes the need for substantial expenses for the development of further countermeasures to eliminate illicit trade. Although the Issuer's anti-illicit trade policy is an integral part of the Issuer's internal policy which the Issuer adheres to, it cannot prevent all instances of illicit trade.

Furthermore, counterfeit products (especially NGP products) and other illicit products could harm consumers, damages goodwill and/or the category (with lower volumes and reduced profits), and could potentially lead to misplaced claims against the Issuer, further regulation and a failure to deliver the Issuer's corporate harm reduction objective. Counterfeit products also risk damaging the Issuer's reputation (including negative perceptions of the Issuer's governance and its ESG credentials) from the Issuer's products being found in illicit channels.

Substantial costs could be incurred in connection with litigation.

The Issuer is a defendant in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or e-vapour products, or exposure to tobacco smoke. As of 31 March 2026, there was a total of one tobacco smoking and health related case pending in which the Issuer was named as a defendant.

The Issuer and its subsidiaries are unable to predict the outcome of currently pending or future lawsuits. If any of these actions result in a decision that is unfavourable to the Issuer, its business could be materially affected by, for example, the payment of a substantial amount of monetary compensation. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the Issuer and/or its subsidiaries, forcing them to bear litigation costs and materially affecting their business performance. In addition to smoking/vaping and health related cases, the Issuer and/or some of its subsidiaries may be a party to further cases should litigation occur in the future, such as if any problems arise regarding product quality that lead to the Issuer and/or some of its subsidiaries becoming the target of claims seeking product liability. Such litigation cases may negatively affect the Issuer's business performance or the manufacture, sale, and import and export of the Issuer's products, should their outcomes prove unfavourable.

If the Issuer is unable to adequately protect its intellectual property, third parties may be able to use similar technology, which could adversely affect the Issuer's ability to compete in the market.

The Issuer will be able to protect its intellectual property rights from unauthorised use by third parties only to the extent that the Issuer's technologies and products are covered by valid and enforceable patents or trademarks or are effectively maintained as trade secrets. The Issuer applies for patents covering the Issuer's technologies and products as and when it deems appropriate. However, these applications may be challenged or may fail to result in issued patents. The Issuer's existing patents and any future patents the Issuer obtains may not be sufficiently broad to prevent others from practicing the Issuer's technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design their products around the Issuer's patents. The Issuer's patents may be challenged, invalidated or fail to provide the Issuer with any competitive advantages. Government action may also affect the value of the Issuer's intellectual property if, for example, any regulation under the disclosure regime were to force the Issuer to reveal trade secrets.

The Issuer also relies on trademarks and brand names to distinguish its products from those of its competitors. Although the Issuer devotes resources to protecting its trademarks to the extent that it deems to be appropriate, these protective actions may not be sufficient to prevent unauthorised usage or

imitation by others, which could harm the Issuer's reputation, brand or competitive position. The trademarks for which the Issuer applies may not be acceptable to regulatory authorities, and the Issuer's trademarks may be challenged by third parties.

In addition, the laws of some countries do not protect intellectual property rights to the same extent as the laws of the major industrialised nations, and many companies have encountered significant problems in protecting and defending such rights in certain jurisdictions.

Claims of intellectual property infringement could require the Issuer to spend substantial time and costs and adversely affect the Issuer's ability to develop and commercialise products.

The Issuer's commercial success depends in part on its ability to avoid infringing patents, trademarks and other proprietary rights of third parties, and on its ability to avoid breaching the terms of any licence agreements that it has entered into with third parties with regard to the technologies and/or brands of those third parties. Other parties may have filed, and may in the future file, applications for patents covering substance composition, techniques and methodologies relating to products and technologies that the Issuer has developed or intends to develop or use, or for trademarks covering brands owned or used by the Issuer.

If patents or trademarks in use by the Issuer are issued to third parties, the Issuer may have to rely on licences from such third parties, which may not be available on commercially reasonable terms on a timely basis, or at all. Claims by third parties that the Issuer's use of any technologies, substances or brands infringes their patents or trademarks, regardless of their merit, could require the Issuer to incur substantial costs, including the diversion of management and technical personnel, to defend itself against any of these claims or enforce its intellectual property rights. In the event that a claim of infringement is brought against the Issuer and such claim is successful (in whole or in part), the Issuer may be required to pay damages and obtain one or more licences from third parties. The Issuer may not be able to obtain these licences on a timely basis at a reasonable cost, or at all. Defence of any lawsuit or failure to obtain any of these licences could adversely affect the Issuer's ability to develop and commercialise products.

Any acquisitions or similar investments which do not yield the anticipated results could adversely affect the Issuer's financial condition and operating results.

In the past, the Issuer has made a number of tobacco business-related expansions aiming for medium to long-term growth, through reinforcing its business foundations, geographic expansion and portfolio expansion, including the establishment of a corporate entity in Uzbekistan in 2023.

The Issuer considers acquisitions of and investments in other companies, joint ventures or similar arrangements in its international tobacco business and executes such transactions in the ordinary course of the Issuer's business if appropriate conditions are met. In addition, the Issuer may from time to time make financial investments, including through the acquisition of equity interests in third parties or through other financial instruments (such as convertible instruments, debt with equity features or other structured financial arrangements), as part of its broader investment and growth strategy. To the extent that any acquisition or similar investment does not generate the operational and financial results expected, the Issuer may be required to expend additional financial or managerial resources. The Issuer's ability to realise the anticipated benefits of any acquisition or investment will depend upon a number of factors including, but not limited to, the following:

- the Issuer's ability to integrate operations, personnel, technologies and organisations in different geographical locations or from different cultural backgrounds;
- continued demand for, and the Issuer's ability to manufacture and sell, the products of acquired or partner businesses;
- the Issuer's ability to prevent disruption of ongoing businesses;

- the Issuer's ability to retain key personnel of the acquired businesses and maintain employee morale;
- the Issuer's ability to extend its financial and management controls and reporting systems and procedures to acquired businesses;
- the Issuer's ability to minimise the diversion of management attention from ongoing business concerns;
- the Issuer's ability to build an effective brand and product portfolio; and
- the Issuer's ability to link sales and market strategies of different product lines.

There can be no assurance that the Issuer's expansion strategy will successfully yield the anticipated results or that it will not adversely affect its financial condition and operating results.

The Issuer's growth strategy includes a combination of organic growth as well as mergers, acquisitions, joint ventures and investments, including financial investments such as equity investments and investments in other financial forms. The Issuer may be unable to acquire or invest in attractive businesses on favourable terms and may inappropriately value or otherwise fail to identify or capitalise on growth opportunities. The Issuer may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate businesses it acquires or establishes, or obtain appropriate regulatory approvals for business combinations. Risks from integration of businesses also include the risk that the integration may divert the Issuer's focus and resources from its other strategic goals. Furthermore, transactions may include risks associated with an unpredictable regulatory landscape, such as bans or more restrictive regulations which come into force after the acquisition.

Such acquisitions or similar financial investments could have an adverse impact on the Group's financial position. In particular, the financing of any such transaction – whether through the incurrence of debt, the issuance of equity or a combination thereof – may result in a substantial increase in the Group's indebtedness and leverage. An elevated debt level could restrict the Group's financial flexibility, increase its interest burden and financing costs, limit its ability to raise additional capital on favourable terms, and render the Group more vulnerable to adverse macroeconomic conditions or unexpected deteriorations in its business. There can be no assurance that any financial investment made by the Issuer will generate returns sufficient to service the associated indebtedness or to offset the related risks and costs.

Additionally, the Issuer could be exposed to financial, legal or reputational risks if it fails to appropriately consider and address any compliance, antitrust or sustainability aspects of a transaction or planned transaction. Further, the Issuer has certain uncapped indemnification obligations in connection with divestitures and could incur similar obligations in the future.

Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have an adverse effect on the Issuer's results of operations and financial condition, and in the case of a breach of compliance, product regulation or antitrust regulation, could lead to reputational damage, fines and potentially criminal sanctions and an adverse impact on the Issuer's sustainability priorities. This may impact the Issuer's ability to compete in the long-term.

Inability to execute planned divestments, or poorly executed divestments, may not deliver fair value, or may result in loss of potential sale proceeds resulting in fewer resources to drive quality growth or meet other corporate targets.

The Issuer may become liable for claims arising in respect of conduct prior to any merger or acquisition of businesses if deemed to be a successor to the liabilities of the acquired company or indemnification claims relating to divestitures, and any resulting adverse judgment against the Issuer may adversely affect its results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

Failure to hire and maintain a pool of talented employees may adversely affect the Issuer's businesses and operating results.

The Issuer is aware of the negative reputation of the tobacco business. For that reason, it is increasingly challenging for the Issuer to recruit and retain talented people. Should the Issuer be unable to sufficiently fulfil its employment needs, future business operations may become difficult, thus having a negative impact on the Issuer's business performance.

Similarly, the Issuer is exposed to the risk of an increase above inflation in employment costs, including due to governmental action to introduce or increase minimum wages. Employment and health care law changes and the increase in inflation may also increase the cost of provided health care and other employment benefits expenses.

The Issuer also relies on a number of highly experienced employees with detailed knowledge of the tobacco and nicotine industry, other areas of focus for the Issuer (including NGP products) and the Issuer's business. Similarly, the Issuer is dependent on its ability to identify, attract, develop and retain such qualified personnel in the future. The Issuer is also dependent on external hires to ensure the Issuer is equipped with the right new business-critical capabilities and knowledge to accelerate transformation. The Issuer anticipates that this trend will continue and therefore the ability to continue to build awareness, increase reach and ultimately attract a new target audience remains a primary focus.

Furthermore, broader economic and ESG trends may impact the Issuer's ability to retain key employees and may increase competition for highly talented employees. Whilst the Issuer is enhancing its effort on retaining critical capabilities and knowledge, building the right leadership behaviour and organisational culture, and focusing on employee development and engagement, the retention risk of experienced employees remains an area requiring management attention.

If the Issuer is unable to retain its existing key employees or to attract and retain skilled talent in the future, critical positions may be left vacant, resulting in a failure to retain critical business knowledge required for its transformation, as well as adversely impacting the Issuer's results of operations, financial condition and achieving broader business objectives, such as its sustainability ambitions.

High voluntary employee turnover may also reduce organisational performance and productivity, leading to further adverse impact on the Issuer's results of operations and financial condition and cause the Issuer to fail to deliver on its strategic growth plans.

Problems related to food safety or quality in the Health Functional Foods Business, or changes in related food safety regulations, may adversely affect the Issuer's operating results.

The aim of the Health Functional Foods Business is to provide consumers with safe and high-quality health functional foods. However, in the event that problems related to food safety or quality occur that exceed those anticipated by the Issuer, in addition to a decline or impairment of public trust in the Issuer, costs related to product recalls and demands for compensatory damages may be incurred, which could negatively impact performance.

The Health Functional Foods Business is subject to a variety of legal restrictions, such as the Framework Act on Food Safety, the Food Sanitation Act, Health Functional Foods Act and the Act on Labelling and Advertising of Foods, and the Issuer operates a thorough programme of compliance to

ensure conformity with all these legal restrictions. However, in the event that legal restrictions are introduced or changed, additional costs may be incurred to comply with these regulations, or existing business activities may be restricted, leading to a negative impact on the Issuer's business performance.

A delay in or a cancellation of new drug development, a suspension of sales or a product recall in the Pharmaceuticals Business may adversely affect the Issuer's operating results.

The Pharmaceuticals Business engages in research and development so as to swiftly provide original and new drugs to patients around the world. New drug development requires the Issuer to invest significant amounts of time and money, and the hurdles to discovering new drugs become higher every year. In some cases, development is delayed or cancelled when the anticipated results in terms of efficacy and safety cannot be confirmed during development or when unexpected side effects occur during development. Such cases may have a negative impact on the performance of the Issuer by failing to achieve the expected investment returns, or by delaying said returns, amongst other effects.

In addition, although the developed pharmaceuticals undergo stringent examinations before being approved by the governmental agencies with jurisdictions in various countries around the world, a suspension of sales or a product recall could subsequently occur if unexpected side effects or other issues are discovered after the product goes on sale. Such a situation could negatively impact the performance of the Issuer by causing a decline in revenue, the occurrence of expenses related to the suspension of sales or product recall, a decline in public trust in the Issuer, or claims to be brought against the Issuer.

Increasingly stringent pharmaceutical regulations may adversely affect the Issuer's operating results.

The Pharmaceutical Business operates under regulations, imposed by the policies of various countries, that seek to ensure the quality, effectiveness and safety of pharmaceutical products. The environment in which the pharmaceutical industry operates is expected to remain challenging, due to factors such as attempts by various governments to control healthcare costs and the drastic reform of the drug pricing system in Korea. For example, in May 2024, Ministry of Health and Welfare of Korea announced the introduction of a drug pricing system based on the actual transaction price and the corresponding price reduction of certain drugs, which has been fully effective since July 2024. In the event that pharmaceutical regulations are made more stringent, the Issuer may incur additional costs to ensure that products comply with strengthened rules. In the event of drug prices being lower than expected as a result of trends in healthcare systems or regulatory policies, including the reform of drug price standards, the Issuer's revenue may decline. In either case, there would be negative effects on the performance of the Issuer.

Change or termination of agreements with licensing partners or contract manufacturers in the Pharmaceutical Business may adversely affect the Issuer's operating results.

The Issuer's Pharmaceutical Business has been making steady progress in its research and development and the Issuer's aim is for that division to increasingly contribute to the sustainable profit growth of the Issuer. The Issuer licenses out its compounds with the aim of maximising their value. Moreover, the manufacture of each of the Issuer's Pharmaceutical Business products is contracted to external manufacturers. Whilst the Issuer seeks to maintain close relationships with these companies, in the event that agreements with these partners are changed or terminated, or in the event that the partnership suffers from delays, the returns expected at the point at which the agreement was concluded may not be achieved, or returns may be delayed, with a resulting negative impact on the performance of the Issuer.

Reductions in the Issuer's ratings may adversely affect the Issuer's ability to raise capital in the debt markets at attractive rates.

Credit ratings are a component of the Issuer's funding and liquidity profile. Credit ratings are an indicator of the credit worthiness of a particular company, security or obligation. Any reduction in the Issuer's credit ratings could adversely affect its liquidity and competitive position, increase the Issuer's

borrowing costs and limit its access to the capital markets and funding sources on commercially acceptable terms. Such events could adversely affect the Issuer's financial condition and results of operations.

Catastrophes, including natural disasters, IT infrastructure failures and cyber-crime may disrupt the Issuer's businesses and limit the Issuer's growth

The Issuer has sales in various markets around the world and is working to further strengthen and expand its global business base. Recently, natural disasters have occurred in Korea and overseas such as earthquakes, tsunamis, typhoons or floods, and the emergence of new infectious diseases. Future large-scale natural disasters or human-made disasters such as suspension of utilities, political instability, fires or bombings, the spread of infectious diseases, or other such unforeseen emergencies, may negatively affect the Issuer's business performance. Such effects may be caused by supply shortages due to problems at suppliers; disruptions to traffic, logistics services or sales channels; suspension of utilities such as electric or water; declines in demand; employees suffering damage in a disaster; or stoppages of product supplies due to logistics disruptions.

In the operation of its business, the Issuer utilises various types of information technology to efficiently perform its business and operations. To that end, in the event that damage to systems or leaks of confidential information occur as a result of unforeseen circumstances, such as attacks on the Issuer or its suppliers by illicit access or computer viruses, or disasters, the business performance of the Issuer may be negatively affected due to the temporary suspension of information systems, the decline of public trust, the loss of competitive advantage and the bearing of expenses to appropriately respond to these events.

In addition, climate change ensuing from global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change; and biodiversity loss. Those impacts could raise issues such as changes in environmental conditions of the Issuer's key raw materials (including tobacco) and disruption in the Issuer's supply chain. This may adversely affect the Issuer's manufacturing operations and financial results through deterioration in quality and increase in price/sourcing cost of those raw materials.

The Issuer's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Issuer is subject to risks relating to its information and technology systems and processes. These risks, which may arise internally and externally, include malfunctions and failures, human error or misconduct and other external factors. Although the Issuer actively seeks to identify and remedy flaws in its information and technology systems, it may not be able to prevent all types of defects in or malfunctioning of its systems and any such occurrences in the future could potentially result in financial losses or other damages to the Issuer, including damage to its reputation.

The Issuer relies on internal and external information and technology systems to generate new business, provide services to customers, administer customer data and manage the Issuer's operations. The Issuer uses advanced software, systems and networks to manage its customer and accounting data and other aspects of its business. This hardware and software is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses and similar events or the interruption or loss of support services from third parties such as internet data centre operators, system vendors and internet service providers. Any disruption, outage, delay or other difficulty experienced by any of these information and technology systems could result in underwriting or other delays, slower processing of applications and reduced efficiency in servicing including delays in the provision or repayment of borrowings, or decreased consumer confidence in the Issuer's business, or otherwise adversely affect the Issuer's results of operations.

The Issuer is subject to Korea's major data privacy laws, which include: (1) Personal Information Protection Act and (2) Act on the Promotion of Information and Communications Network Utilization and Information Protection. Through its business, the Issuer acquires a large amount of personal and financial information related to its customers. In addition, certain third-party vendors may provide services to the Issuer using personal and financial information of its customers. Improper use or disclosure of, or a failure to protect or properly control, such information could result in violations of applicable laws or reputational or financial harm to the Issuer. The Issuer takes precautionary measures, including implementation of internal compliance procedures, to prevent and detect misuse or unauthorised disclosure of customers' personal information, but these measures may not be effective in all cases, particularly in respect of third-party vendors. There is no assurance that stricter legal and regulatory measures or heightened regulatory activities will not have an adverse effect on the business and operation of such financial institutions, including the Issuer.

The risk management policies and procedures of the Issuer may not be effective.

The Issuer must manage the operational risks to which it is exposed. The Issuer considers operational risk to be the risk of not achieving its business objectives due to failed processes, people or information systems, or from the external environment, such as natural disasters. Operational risks include the risk that it is unable to manage a downturn in its businesses and/or negative changes in its credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs.

Although the Issuer has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future, its hedging strategies and other risk management techniques may not be fully effective in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Management of credit, market and operational risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Risks relating to the Notes

The Notes are unsecured obligations.

As the Notes are unsecured obligations of the Issuer, the repayment of the Notes may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

The Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Notes are legal investments for it, (b) the Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Notes. Financial institution investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

The Notes issued may fail or cease to be listed or have limited liquidity.

The Notes are expected to be listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). If the Notes fail to, or cease to, be listed on the SGX-ST, certain investors may not invest in, or continue to hold or invest in, the Notes. The Notes constitute a new issue of securities for which there is currently no existing trading market. Although the Managers may make a market in the Notes, they are not obliged to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice. No assurances can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- prevailing interest rates;

- the Issuer's results of operations, financial condition and prospects;

- the rate of exchange between the Won and the currency of the Notes;

- political and economic developments in and affecting Korea and other regions;

- the financial condition and stability of the Korean financial and other sectors; and

- the market conditions for similar securities.

An active trading market for the Notes may not develop.

The Notes are a new issue of securities for which there is currently no trading market. Although an application will be made to the SGX-ST for the listing of the Notes on the SGX-ST, no assurance can be given that such application will be approved, or even if the Notes become so listed, an active trading market for the Notes will develop or be sustained. No assurance can be given as to the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes or that a liquid market will develop. The liquidity of the Notes will be adversely affected if the Notes are held or allocated to limited investors. Holders of the Notes should note that they may need to hold their Notes until maturity as there may not be an active secondary market for the Notes. None of the Managers is obligated to make a market in the Notes, and if the Managers do so, they may discontinue such market making activity at any time at their sole discretion. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to, or exempt from, registration under the Securities Act.

Investors in the Notes may be subject to foreign exchange risks.

The Notes are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Notes, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of U.S. dollars against such currency could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

Changes in market interest rates may adversely affect the value of the Notes.

The holders of the Notes may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the holders of the Notes. However, the holders of the Notes may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The holders of the Notes may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The Notes will carry a fixed interest rate. Consequently, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. If holders of the Notes sell the Notes they hold before the maturity of such Notes, they may receive an offer less than their investment.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect

the securities markets and the securities of issuer in other countries, including China. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The Notes will initially be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System.

The Notes will initially be represented by a Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a "**Clearing System**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System will maintain records of the beneficial interests in the Global Certificate.

While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

Ratings of the Notes may not reflect all risks and may be changed at any time, which may adversely affect the value of the Notes.

The Notes are expected to be assigned a rating of "A3" by Moody's and "A-" by S&P. One or more independent credit rating agencies may assign credit ratings to an issue of the Notes. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer to perform their respective obligations under the Notes and the credit risks in determining the likelihood that payments will be made when due under the Notes. Such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be lowered, suspended or withdrawn by the rating agencies in the future if, in their judgment, the circumstances so warrant. None of the Issuer, is obligated to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may materially and adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Notes, see "*Subscription and Sale*".

The Notes have not been and will not be registered with the FSC under the Financial Investment Services and Capital Markets Act of Korea (the "**FSCMA**"). Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any

resident of Korea (as such term is defined under the Foreign Exchange Transactions Act and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a "qualified institutional buyer" (a "**Korean QIB**, as defined in the Regulation on Securities Issuance, Public Disclosure, Etc. of Korea) who is registered with the Korea Financial Investment Association as a Korean QIB. Furthermore, the Notes acquired by all Korean QIBs at the time of issuance must be no more than 20% of the aggregate principal amount of the Notes.

Payments made on or with respect to the Notes may be subject to FATCA withholding tax.

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Korea) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which financial regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Notes treated as debt for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under *"Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Issuer's current business and future growth could be materially and adversely affected.

The Issuer is incorporated in Korea and a significant portion of its assets is located in Korea. As a result, the Issuer is subject to political, economic, legal and regulatory risks specific to Korea, and the Issuer's performance and successful execution of its operational strategies are dependent on the overall Korean economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices, supply chain disruptions and the increasing weakness of the global economy, the Russia-Ukraine war and ensuing sanctions against Russia, difficulties faced by several banks in the United States and Europe and the escalation of hostilities in the Middle East following the Israel-Hamas war and the Iran-Israel conflict as well as rapid increases in policy interest rates globally have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy.

The value of the Won relative to major foreign currencies, in particular the U.S. dollar, has fluctuated significantly and, as a result of uncertain global and Korean economic, social and political conditions, there has been significant volatility and an overall decrease in the stock prices of Korean companies recently. Future declines in the Korea Composite Stock Price Index, and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect the Issuer's business, financial condition and results of operations.

Other developments that could have an adverse impact on Korea's economy include:

- the occurrence of severe health epidemics, such as the COVID-19 pandemic;
- hostilities, political or social tensions involving Russia (including the Russia-Ukraine war and the ensuing actions that the United States and other countries have taken or may take in the future, such as the imposition of sanctions against Russia) and the resulting adverse effects on the global supply of oil and other natural resources and the global financial markets;
- political uncertainty or increasing strife among or within political parties in Korea following the declaration of martial law by former President Yoon Suk-yeol in December 2024 that led to his impeachment and subsequent removal in April 2025 and the election of Mr. Lee Jae-myung as President in June 2025;
- adverse conditions or developments in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere, including as a result of the deterioration of economic and trade relations between the United States and China and increased uncertainties in the global financial markets and industry;
- disruptions in the global supply chain for raw materials, natural resources, consumer goods, rare earth minerals, component parts and other supplies, including semiconductors;
- interest rate fluctuations as well as perceived or actual changes in policy rates, or other monetary and fiscal policies set forth, by the U.S. Federal Reserve, Korea and other central banks;
- rising inflationary pressures leading to increases in the costs of goods and services and a decrease in purchasing power;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or Japanese Yen exchange rates or revaluation of the Chinese Yuan and the depreciation of the Won against such currencies), interest rates, inflation rates or stock markets;
- difficulties in the financial sectors and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- a substantial decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programmes as well as interest rate increases which, together, would lead to an increased Government budget deficit as well as an increase in the Government's debt;
- declines in consumer confidence and a slowdown in consumer spending including as a result of severe health epidemics, such as the COVID-19 pandemic, and higher levels of market interest rates;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small- and medium-sized enterprise borrowers in Korea;
- substantial changes in the market prices of Korean real estate;
- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;
- deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Government's policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean business groups and their senior management for possible misconduct;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- social and labour unrest;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- a continued decrease in the population and birthrates;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- hostilities or political or social tensions involving countries in the Middle East (including those resulting from the escalation of hostilities in the Middle East following the Israel-Hamas war and the Iran-Israel conflict) and Northern Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

Escalations of tensions with North Korea could have an adverse effect on the Issuer and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon, ballistic missile and satellite programmes as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and has conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs and warheads that can be mounted on ballistic missiles. Over the years, North Korea has continued to conduct a series of missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. North Korea has increased the frequency of such activities since the beginning of 2022, firing numerous ballistic missiles, including intercontinental ballistic missiles, and in November 2023, successfully launched its first spy satellite. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea or between the United States and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on the Issuer's business, financial condition and results of operations and the market price and ratings of the Notes.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

As the Issuer is a Korean company and operates in a business and cultural environment that is different from that of other countries, there are risks associated with investing in its securities that are not typical for investments in securities of companies in other jurisdictions.

Under the Foreign Exchange Transactions Act of Korea and the Presidential Decree and regulations under that Act and Decree (collectively referred to as the "**Foreign Exchange Transaction Laws**"), if the Government determines that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilising the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of the MOFE for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other types of capital transactions. Moreover, if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden changes in domestic or foreign economic circumstances or similar events or circumstances, the Minister of the MOFE may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit or sell any means of payment to the Bank of Korea or certain other governmental agencies or financial institutions.

In addition, the Issuer's audited and unaudited condensed consolidated financial statements included in this Offering Circular are presented in accordance with K-IFRS and its future financial statements will be prepared in accordance with K-IFRS, which differ in certain respects from accounting principles applicable to companies in certain other countries. It also makes regulatory filings and disclosures regarding other aspects of its business in accordance with applicable rules and regulations and accepted practice in Korea. These filing and disclosure rules and practices differ in material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public companies in other countries. In making an investment decision, investors must rely upon their own examination of the Issuer, the terms of the Notes and the financial and other information contained in this Offering Circular.

The Issuer is incorporated in Korea, and it may be more difficult to enforce judgments of U.S. courts.

The Issuer is a corporation with limited liability organised under the laws of Korea. Most of its directors, executive officers and certain other persons named in this Offering Circular are non-U.S. residents, and all or a significant portion of the assets of its directors, executive officers and certain other persons named in this Offering Circular and most of its assets are located or registered outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon it or to enforce against it, the Issuer's directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the U.S. or similar judgments obtained in other courts outside Korea. There is doubt as to the enforceability in Korean courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States.

TERMS AND CONDITIONS OF THE NOTES

The issue of the Notes was authorised by a resolution of the Board of Directors of KT&G Corporation (the "**Issuer**") passed on 5 February 2026. A fiscal agency agreement dated 21 July 2026 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Notes between the Issuer, Citicorp International Limited as fiscal agent (the "**Fiscal Agent**") and Citibank, N.A., London Branch as registrar (the "**Registrar**") and transfer agent (the "**Transfer Agent**") and any other agent or agents appointed from time to time with respect to the Notes. The Notes have the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 21 July 2026 executed by the Issuer relating to the Notes. The fiscal agent, the registrar and any transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Transfer Agents**". "**Agents**" means the Fiscal Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Notes. The Fiscal Agency Agreement includes the form of the Notes. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available to the Noteholders following prior written request and satisfactory proof of holding during normal business hours from the specified offices of the Fiscal Agent. The holders of the Notes (the "**Noteholders**") are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Fiscal Agency Agreement.

1 Form, Specified Denomination and Title

The Notes are issued in the specified denomination of U.S.$200,000 and higher integral multiples of U.S.$1,000.

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same holder.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered.

2 Transfers of Notes

(a) **Transfer:** A holding of Notes may, subject to Condition 2(e), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. The

regulations may be changed by the Issuer, with the prior written approval of the Registrar. A copy of the current regulations will be made available by the Registrar to any Noteholder upon written request and satisfactory proof of holding.

Transfers of interests in Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(b) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(a) or Condition 2(b) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer or Exercise Free of Charge:** Certificates, on transfer, exercise of an option or partial redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Issuer or any Agent may require) of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) after any such Note has been called for redemption, or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations including liabilities in respect of deposits.

4 Certain Covenants

(a) **Negative Pledge:** So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer will not create or have outstanding, and will ensure that none of its Subsidiaries will create, or have outstanding, any Security Interest, other than any Permitted

Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders unless, after giving effect thereto, the aggregate principal amount of all such secured Relevant Indebtedness, plus Attributable Debt of the Issuer and its Subsidiaries in respect of Sale/Leaseback Transactions as described in Condition 4(b), in each case entered into after the date of the issuance of the Notes, would not exceed 10% of Consolidated Net Tangible Assets.

(b) **Limitation upon Sale and Leaseback Transactions:** Neither the Issuer nor any Subsidiary may enter into any Sale/Leaseback Transaction after the date of the issuance of the Notes, unless (x) the Attributable Debt of the Issuer and its Subsidiaries in respect thereof and in respect of all other Sale/Leaseback Transactions entered into after the date of the issuance of the Notes (other than transactions permitted by sub-clause (y) below) plus the aggregate principal amount of Relevant Indebtedness secured by any Security Interest on any assets or property then outstanding (excluding any such Relevant Indebtedness secured by any Security Interest described in the definition of Permitted Security Interest below or existing at the date of the issuance of the Notes without equally and ratably securing the Notes), would not exceed 10% of Consolidated Net Tangible Assets, or (y) the Issuer or a Subsidiary within 12 months after such Sale/Leaseback Transaction, applies to the retirement of Relevant Indebtedness, which is not subordinate to the Notes, of the Issuer or a Subsidiary an amount equal to the greater of (i) the net proceeds of the sale or transfer of the property or other assets which are the subject of such Sale/Leaseback Transaction or (ii) the fair market value of any assets or property so leased (in each case as determined by the Issuer); provided that the amount to be so applied shall be reduced by (i) the principal amount of the Notes delivered within 12 months after such Sale/Leaseback transaction to the Agent for cancellation, and (ii) the principal amount of Relevant Indebtedness of the Issuer or a Subsidiary, other than the Notes, voluntarily retired by the Issuer or a Subsidiary within 12 months after such Sale/Leaseback Transaction. Notwithstanding the foregoing, no retirement referred to in this Condition 4(b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision. Notwithstanding the foregoing, where the Issuer or any Subsidiary is the lessee in any Sale/Leaseback Transaction, Attributable Debt shall not include any Relevant Indebtedness resulting from the guarantee by the Issuer or any other Subsidiary of the lessee's obligation thereunder. The foregoing restriction shall not apply to any transaction between the Issuer and a Subsidiary or between a Subsidiary and a Subsidiary.

(c) **Consolidation, Merger and Sale of Assets:** The Issuer, without the consent of the Noteholders, may consolidate with, or merge into, or sell, transfer, lease or convey its assets substantially as an entirety (each, a "**transaction**") to any corporation organised under the laws of the Republic of Korea ("**Korea**"), provided that (x) any successor corporation expressly, or by operation of law, assumes the Issuer's obligations under the Notes and the Fiscal Agency Agreement, (y) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (z) such successor corporation has the benefit of a credit rating which, at the time and immediately after such transaction takes place, is no worse than the credit rating of the Issuer, and (xx) if, as a result of any such transaction, properties or assets of the Issuer or a Subsidiary would become subject to any mortgage, charge, pledge, encumbrance or other security interest which would not be permitted under these Conditions, the Issuer or such successor corporation, as the case may be, shall take such steps as shall be necessary effectively to secure the Notes (together with, if the Issuer

shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created which is not subordinate to the Notes) equally and ratably with (or prior to) all indebtedness secured thereby.

(d) **Certain Definitions:**

"**Attributable Debt**" means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or other assets subject to such transaction and (y) the present value (discounted at a rate per annum equally to the discount rate of a capital lease obligation with a like term in accordance with Korean International Financial Reporting Standard ("**K-IFRS**")) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents) during the term of the lease;

"**Consolidated Net Tangible Assets**" means the total amount of assets of the Issuer and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (a) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible) and (b) all goodwill, trade names, trademarks, patents, unamortised debt discount and expense and other like intangible assets, all as set forth on the most recent audited annual consolidated statement of financial position of the Issuer and its consolidated Subsidiaries and computed in accordance with K-IFRS;

"**Long-term Debt**" means any note, bond, debenture or other similar evidence of indebtedness of money borrowed having a maturity of more than one year from the date such evidence of indebtedness was incurred or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the borrower beyond one year from the date such evidence on indebtedness was incurred.

"**Permitted Security Interest**" means (1) any Security Interest existing as of the date of the Fiscal Agency Agreement, (2) any Security Interest existing on any assets or property prior to the acquisition thereof by the Issuer or any of its Subsidiaries or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition; (3) any Security Interest on any assets or property securing Relevant Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, provided that such Security Interest attaches to such assets or property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof; (4) any Security Interest existing on any assets or property of any Subsidiary prior to the time such Subsidiary becomes a Subsidiary of the Issuer or arising after such time pursuant to contractual commitments entered into prior to and not in contemplation thereof; (5) any Security Interest securing Relevant Indebtedness owing to the Issuer or to a Subsidiary; and (6) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Security Interest permitted by any of the foregoing paragraphs, provided that such Relevant Indebtedness is not increased and is not secured by any additional property;

"**person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities (but excluding for the avoidance of doubt, instruments commonly referred to as transferable loan certificates) which (a) either are by their terms payable, or confer a right to receive payment, in any currency

other than Korean Won or are denominated in Korean Won and more than 50% of the aggregate principal amount thereof is initially distributed outside Korea and (b) for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea;

"**Sale/Leaseback Transaction**" means any arrangement with any Person which provides for the leasing by the Issuer or any Subsidiary, for an initial term of three years or more, of any assets or property, whether now owned or hereafter acquired, which are to be sold or transferred by the Issuer or any Subsidiary after the date of the issuance of the Notes to such Person for a sale price of U.S.$1,000,000 (or the equivalent thereof) or more where the rental payments are denominated in a currency other than the currency of Korea;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Issuer.

5 Interest

The Notes bear interest on their outstanding principal amount from and including 21 July 2026 at the rate of 4.875 per cent. per annum, payable semi-annually in arrear on 21 January and 21 July in each year (each, an "**Interest Payment Date**"). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 21 July 2026 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 Redemption and Purchase

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 January 2030. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation and other Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Korea or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 13 July 2026, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised persons of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Fiscal Agent shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on such certificate or opinion.

(c) **Purchase:** the Issuer and its Subsidiaries (as defined in the Fiscal Agency Agreement) may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 12(a).

(d) **Cancellation:** All Certificates representing Notes purchased by or on behalf of the Issuer shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments

(a) **Method of Payment:**

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency and may be made by transfer to an account in the relevant currency maintained by the payee with a bank. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer

or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or an Alternative Clearing System (as defined in the form of the Global Certificate), each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 1 January and 25 December.*

(b) **Payments subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payment Initiation:** Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Fiscal Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents:** The Fiscal Agent, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Registrar and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar or any Transfer Agent and to appoint additional or other Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders by the Issuer in accordance with Condition 14.

(e) **Delay in Payment:** Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in Seoul, in New York City, in London and in the place in which the specified office of the Fiscal Agent is located.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Korea or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Korea other than the mere holding of the Note; or

(b) in respect of which the certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days.

(c) in respect of any taxes that would not have been so withheld or deducted but for the failure of the Noteholder or a beneficial owner of the Notes to comply with a request by the Issuer or the Fiscal Agent to satisfy any certification, identification or other reporting requirements, imposed as a precondition to exemption from or reduction in the rate of such taxes, concerning nationality, residence or connection with the Relevant Jurisdiction; provided that at least 30 calendar days prior to the first payment date with respect to which compliance with such certification, identification or other reporting requirement is required, the Noteholder has been notified by the Issuer or the Fiscal Agent that such compliance is required;

(d) in respect of any estate, inheritance, gift, sales, transfer, personal property or other similar taxes;

(e) in respect of any taxes payable other than by withholding or deduction; or

(f) in respect of any combination of paragraphs (a) through (e) above.

Notwithstanding any other provision of the Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender; and

"**Relevant Jurisdiction**" means Korea or any political subdivision or any authority thereof or therein having power to tax.

None of the Agents shall in any event be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and nor will any Agent be responsible or liable for any failure by the Issuer or the Noteholders or any other person to pay such tax, duty, charges, withholding or other payment or be responsible to provide any notice or information in relation to the Notes in connection with payment of such tax, duty, charges, withholding or other payment.

9 Events of Default

If any of the following events ("**Events of Default**") occurs, the holder of any Notes then outstanding may give written notice to the Issuer (with a copy to the Fiscal Agent) that such Notes immediately becomes due and payable at their principal amount together (if applicable) with any accrued but unpaid interest:

(a) **Non-Payment:** the Issuer fails to pay the principal of or any interest on any of the Notes when due and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds U.S.$30,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Subsidiaries; or

(e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(f) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of Korea is not taken, fulfilled or done; or

(g) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(h) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 9.

10 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, prefunding and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Noteholders and Modification and Substitution

(a) **Meetings of Noteholders:** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of or interest on, the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of the Fiscal Agency Agreement:** The Issuer shall only permit any modification of, without the consent of the Noteholders, to these Conditions or any of the provisions of the Fiscal Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Noteholders. Any determination as to prejudice applying to the interests of the Noteholders pursuant to this Condition shall be made by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determinations. Any modification shall be binding on the Noteholder and shall be notified by the Issuer to the Noteholder as soon as practicable thereafter in accordance with Condition 14.

(c) **Substitution:** The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders, substitute for itself as principal debtor under the Notes such company (the "**Substitute**") as is specified in the Fiscal Agency Agreement, provided that no payment in respect of the Notes is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Deed Poll**"), to be substantially in the form exhibited to the Fiscal Agency Agreement, and may take place only if (i) the Fiscal Agent has been given 30 days' notice in writing by the Issuer of such intended substitution and the Fiscal Agent has confirmed in writing to the Issuer that the Substitute has fulfilled all necessary "know your customer" and other applicable checks of the Fiscal Agent; (ii) the Substitute shall, by means of the Deed Poll, agree to indemnify each Noteholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (iii) the obligations of the Substitute under the Deed Poll, the Notes shall be unconditionally guaranteed by the Issuer by means of the Deed Poll, (iv) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll and the Notes represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (v) the Substitute shall have become party to the Fiscal Agency Agreement by way of a supplement or amendment, with any appropriate consequential amendments satisfactory to the Fiscal Agent, as if it had been an original party to it, (vi) legal opinions addressed to the Noteholders shall have been delivered to them from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (ii) above and in England as to the fulfilment of the preceding conditions of this Condition 12(c) and the other matters specified in the Deed Poll and (vii) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Noteholders, will be available from the Issuer. References in Condition 9 to obligations under the Notes shall be deemed to include obligations under the Deed Poll.

13 Further Issues

To the extent permitted by applicable laws and regulations and subject to the receipt of all necessary regulatory and listing approvals from the relevant authorities, the Issuer may from time to time, without the consent of the existing Noteholders, create and issue additional notes under the Fiscal Agency Agreement having the same terms and conditions in all respects except for issue date and issue price. To the extent permitted by applicable laws and regulations and subject to the receipt of all necessary regulatory and listing approvals from the relevant authorities, additional notes issued will be consolidated with and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

14 Notices

Notices required to be given to the holders of Notes pursuant to the Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fifth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices required to be given to the holders of Notes pursuant to the Conditions shall also be published (if such publication is required) in a manner which complies with the rules and regulations of the stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Notes are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or an Alternative Clearing System, notices to the holders of the Notes shall be deemed to have been validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, for communication by it to entitled accountholders, in substitution for notification as required by the Conditions.

15 Currency Indemnity

U.S. dollars is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Note, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law and Jurisdiction

(a) **Governing Law:** The Fiscal Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process:** The Issuer irrevocably appoints Walkers of The Scalpel, 11th Floor, 52 Lime Street, London EC3M 7AF, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on any of the Notes. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions that apply to the Notes in respect of which it is issued, some of which modify the effect of the Conditions of the Notes set out in this Offering Circular. The following is a summary of provisions of the Notes while in global form.

Meetings

The registered holders of the Notes in respect of which the Global Certificate are issued will be treated as being one person for the purposes of any meeting of Holders, and at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of the Notes in respect of which the Global Certificate are issued.

Cancellation

Cancellation of any Notes following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Notes in the register of Holders.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, and their respective participants in accordance with their respective rules and operating procedures.

Notices

So long as the Notes are represented by the Global Certificate and the Global Certificate are held on behalf of Euroclear, Clearstream or an alternative clearing system appointed in accordance with the terms of the Notes and the Fiscal Agency Agreement, notices to the Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system.

Paying Agent in Singapore

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for Definitive Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Definitive Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore.

USE OF PROCEEDS

The net proceeds from the issuance of the Notes, after deducting underwriting commission but not estimated expenses of the offering, will be U.S.$298,112,000. The Issuer intends to use such net proceeds for general corporate purposes.

CAPITALISATION

The following table sets forth the Issuer's capitalisation as of 31 March 2026 (1) as derived from the Issuer's unaudited interim consolidated financial statements included in this Offering Circular and (2) as adjusted to give effect to the issuance of the Notes offered hereby, before deducting the underwriting commission and estimated expenses of the offering by the Issuer and on the assumption that the proceeds from the issuance of the Notes will not be used for the immediate repayment of outstanding borrowings. The table below should be read in connection with the Issuer's audited consolidated financial statements and related notes included in this Offering Circular:

	As of 31 March 2026	
	Actual	**As Adjusted**
	(in billions of Won)	
Long-term debt:		
Long-term borrowings (net of current portion)	107.5	107.5
Long-term bonds (net of current portion)	931.2	931.2
Notes offered hereby[(1)]	–	453.4
Total long-term debt	1,038.7	1,492.1
Equity:		
Share capital	955.0	955.0
Other capital surplus	8.4	8.4
Treasury shares	(639.7)	(639.7)
Gain on disposal of treasury sales	530.4	530.4
Other components of equity	146.7	146.7
Retained earnings	8,276.4	8,276.4
Equity attributable to owners of the Parent Company	9,277.1	9,277.1
Non-controlling interest	50.7	50.7
Total equity	9,327.9	9,327.9
Total capitalisation[(2)]	10,366.5	10,820.0

Notes:

(1) The exchange rate used to convert U.S. dollars into Won in the case of the Notes now being issued is Won 1,513.4 to U.S.$1.00, which was the Market Average Exchange Rate in effect on 31 March 2026.

(2) Total capitalisation is defined as total long-term debt plus total equity.

Except as disclosed herein, there has been no material change in the Issuer's capitalisation since 31 March 2026.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

	At End of Period	Average Rate[(1)]	High	Low
		(Won per U.S.$1.00)		
2021	1,185.5	1,144.4	1,199.1	1,083.1
2022	1,267.3	1,292.0	1,436.6	1,185.5
2023	1,289.4	1,305.4	1,360.6	1,219.3
2024	1,470.0	1,364.0	1,474.1	1,289.4
2025	1,434.9	1,422.2	1,483.4	1,352.6
2026 (through 13 July)	1,544.2	1,483.4	1,546.5	1,424.5
January	1,427.0	1,456.5	1,477.5	1,427.0
February	1,424.5	1,449.3	1,470.3	1,424.5
March	1,513.4	1,486.6	1,513.4	1,435.4
April	1,476.1	1,487.4	1,530.5	1,470.8
May	1,505.8	1,490.1	1,513.3	1,450.8
June	1,541.5	1,527.3	1,546.5	1,503.2
July (through 13 July)	1,507.1	1,530.7	1,554.4	1,504.2

Note:

(1) The average rate for each year is calculated as the average of the Market Average Exchange Rates on each business day during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the Market Average Exchange Rates on each business day during the relevant month (or portion thereof).

Source: Seoul Money Brokerage Services, Ltd.

SELECTED FINANCIAL AND OTHER INFORMATION

The selected financial and other information set forth below should be read in conjunction with the Issuer's consolidated financial statements and related notes included elsewhere in this Offering Circular. The selected consolidated financial information set forth below as of and for the years ended 31 December 2023, 2024 and 2025 have been derived from the Issuer's audited consolidated financial statements. The selected consolidated financial information set forth below as of and for the three months ended 31 March 2025 and 2026 have been derived from the Issuer's unaudited interim consolidated financial statements and related notes which have been prepared in accordance with K-IFRS 1034 Interim Financial Reporting.

Consolidated Statements of Comprehensive Income

	Years ended 31 December			Three Months ended 31 March	
	2023	2024	2025	2025	2026
			(in billions of Won)		
Sales	5,862.6	5,908.8	6,579.7	1,491.1	1,703.6
Cost of sales	(3,054.4)	(3,006.8)	(3,435.3)	(737.4)	(881.4)
Gross profit	2,808.2	2,902.0	3,144.4	753.7	822.2
Selling, general and administrative expense	(1,640.9)	(1,713.2)	(1,800.7)	(468.1)	(457.6)
Operating profit	1,167.3	1,188.8	1,343.7	285.6	364.5
Other income	201.6	573.7	467.0	84.9	207.6
Other expense	(194.0)	(268.3)	(448.6)	(71.9)	(99.7)
Finance income	138.9	165.3	147.7	35.2	30.3
Finance costs	(67.8)	(91.6)	(110.2)	(16.5)	(22.0)
Share of net profit of associates and joint ventures	9.6	19.2	39.3	7.4	17.9
Profit (loss) arising from net monetary assets	(7.2)	(21.3)	16.4	12.8	9.6
Profit before income tax	1,248.4	1,565.8	1,455.3	337.4	508.3
Income tax expense	(318.8)	(393.7)	(352.2)	(77.2)	(129.8)
Profit from continuing operations	929.5	1,172.1	1,103.1	260.2	378.6
Discontinued operations					
Loss from discontinued operations	(7.2)	(7.1)	(0.8)	(2.3)	(0.3)
Profit for the period	922.4	1,165.0	1,102.3	257.9	378.2
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	(32.0)	(35.6)	8.1	(0.3)	(2.0)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	19.6	9.8	79.6	(1.3)	8.6
Capital changes in equity method	(0.1)	(0.1)	0.0	0.0	0.1
Items that will be reclassified to profit or loss					
Exchange differences on translating foreign operations	(8.8)	56.8	22.3	24.9	78.4
Capital changes in equity method	(0.4)	(0.4)	(0.7)	0.0	6.7
	(21.5)	30.5	109.2	23.4	91.8
Total comprehensive income for the period	900.8	1,195.5	1,211.5	281.3	470.0
Profit for the period attributable to:					
Owners of the Parent Company					
Profit from continuing operations	909.8	1,172.9	1,090.8	257.9	380.9
Loss from discontinued operations	(7.2)	(7.1)	(0.8)	(2.3)	(0.3)
Profit attributable to owners of the Parent Company	902.7	1,165.7	1,090.1	255.6	380.5
Non-controlling interests					
Profit (loss) from continuing operations	19.7	(0.7)	12.2	2.3	(2.3)
Profit (loss) from discontinued operations	–	–	–	–	–
Profit (loss) attributable to non-controlling interests	19.7	(0.7)	12.2	2.3	(2.3)
Total	922.4	1,165.0	1,102.3	257.9	378.2

	Years ended 31 December			Three Months ended 31 March	
	2023	2024	2025	2025	2026
	(in billions of Won)				
Total comprehensive income (loss) for the period attributable to:					
Owners of the Parent Company					
Profit from continuing operations	889.7	1,206.0	1,200.8	281.2	472.6
Loss from discontinued operations	(7.7)	(9.2)	(0.9)	(2.3)	(0.1)
Total comprehensive income attributable to owners of the Parent Company	882.0	1,196.7	1,199.9	279.0	472.5
Non-controlling interests					
Profit (loss) from continuing operations	18.8	(1.2)	11.6	2.3	(2.5)
Profit (loss) from discontinued operations	–	–	–	–	–
Total comprehensive income (loss) attributable to non-controlling interests	18.8	(1.2)	11.6	2.3	(2.5)
Total	900.8	1,195.5	1,211.5	281.3	470.0
Earnings (loss) per Share					
Basic & Diluted					
From continuing operations (in KRW)	7,905	10,519	10,228	2,391	3,669
From discontinued operations (in KRW)	(62)	(64)	(8)	(21)	(3)
	7,843	10,455	10,220	2,370	3,666

Consolidated Statements of Financial Position

	As of 31 December			As of 31 March
	2023	2024	2025	2026
	(in billions of Won)			
Assets				
Current assets				
Cash and cash equivalents	1,032.0	1,136.0	913.5	1,101.4
Current other financial assets	294.1	463.3	303.3	339.4
Current financial assets measured at fair value through profit or loss	342.9	244.9	61.4	281.4
Trade and other receivables	1,506.5	1,561.7	1,691.4	1,883.4
Derivative assets	7.8	–	5.0	2.5
Inventories	2,763.8	3,101.3	3,284.8	3,157.8
Refund assets and others	0.8	6.2	0.8	0.7
Accrued tobacco excise and others	324.4	404.0	490.8	459.8
Advance payments	79.5	124.6	70.5	93.6
Prepaid expenses	61.4	131.1	163.1	137.8
Current income tax assets	5.2	3.2	0.4	2.1
Assets held for sale	–	–	41.3	33.6
Total current assets	6,418.4	7,176.3	7,026.2	7,493.3
Non-current assets				
Long-term other financial assets	84.5	30.7	38.5	38.5
Long-term deposits in MSA Escrow Fund	1,479.7	1,705.5	1,676.1	1,745.0
Long-term financial assets measured at fair value through profit or loss	344.5	337.9	333.3	299.9
Long-term trade and other receivables	149.7	141.6	159.6	158.4
Long-term financial assets measured at fair value through other comprehensive income or loss	233.1	211.7	187.9	134.4
Investments in associates and joints ventures	471.3	482.3	813.9	815.2
Property, plant and equipment	2,096.5	2,664.4	2,823.0	2,919.0
Intangible assets	175.0	179.7	170.9	170.9
Investment properties	1,018.4	761.2	665.0	663.5
Right-of-use assets	49.0	50.5	62.1	61.1
Long-term advance payments	105.7	100.7	90.0	89.9
Long-term prepaid expenses	12.7	13.3	23.1	28.2
Deferred income tax assets	74.9	61.4	79.4	57.7
Net defined benefit assets	59.1	8.0	40.2	24.9
Total non-current assets	6,354.1	6,748.9	7,162.9	7,206.5
Total assets	12,772.5	13,925.2	14,189.1	14,699.8
Liabilities				
Current liabilities				
Short-term borrowings	61.6	288.0	333.0	225.3
Current portion of long-term borrowings	27.5	36.2	68.9	69.0
Current portion of bonds	–	99.9	329.7	329.8
Current portion of convertible bonds	–	27.4	23.7	14.8
Trade and other payables	1,684.7	1,680.0	1,563.9	2,065.7
Current lease liabilities	18.7	20.9	25.4	25.6
Derivative liabilities	–	32.8	8.5	23.5
Advance receipts	17.2	65.3	31.9	91.9
Current refund liabilities and provisions	33.2	39.1	45.1	30.4
Current income tax liabilities	191.0	197.8	219.0	183.2
Tobacco excise and other taxes payables	638.5	655.5	587.8	610.9
Total current liabilities	2,672.4	3,142.9	3,236.8	3,670.3
Non-current liabilities				
Long-term borrowings	147.3	214.0	106.4	107.5
Long-term bonds	299.2	808.0	907.4	931.2
Long-term convertible bonds	23.4	–	16.9	17.2
Long-term trade and other payables	58.4	81.8	273.3	283.0
Long-term lease liabilities	27.8	27.9	31.8	31.0
Long-term advance receipts	4.2	9.4	2.8	2.0
Net defined benefit liabilities	36.0	42.6	42.7	45.5
Long-term refund liabilities and provisions	5.1	7.6	7.9	7.8
Deferred income tax liabilities	186.0	225.5	220.6	270.2
Non-controlling interests liabilities	17.8	7.1	6.5	6.3
Total non-current liabilities	805.1	1,423.9	1,616.1	1,701.7
Total liabilities	3,477.5	4,566.8	4,853.0	5,372.0

	As of 31 December			As of 31 March
	2023	2024	2025	2026
	(in billions of Won)			
Equity				
Share capital	955.0	955.0	955.0	955.0
Other capital surplus	4.9	5.9	7.9	8.4
Treasury shares	(1,236.9)	(1,030.5)	(835.3)	(639.7)
Gain on disposal of treasury shares	528.9	529.0	529.6	530.4
Other components of equity	7,230.3	7,175.3	6,898.9	146.7[(1)]
Retained earnings	1,692.2	1,604.5	1,723.4	8,276.3[(1)]
Equity attributable to owners of the Parent Company	9,174.4	9,239.2	9,279.6	9,277.1
Non-controlling interest	120.5	119.3	56.6	50.7
Total equity	9,294.9	9,358.5	9,336.2	9,327.9
Total liabilities and equity	12,772.5	13,925.2	14,189.1	14,699.8

Note:

(1) In the first quarter of 2026, the Issuer revised the presentation and classification of certain equity line items in its financial statements with a view to enhancing understandability and comparability for users. Reserves representing distributable amounts have been reclassified as retained earnings, and other items previously presented within reserves have been reclassified as other components of equity. This change in presentation does not affect total equity or profit or loss for any period presented. The comparative financial statements for the prior period have been restated to reflect this reclassification. The restatement does not arise from a material error or a change in accounting policy and has been effected in accordance with Korean International Financial Reporting Standards (K-IFRS).

THE ISSUER

Introduction

The Issuer is one of the leading global tobacco companies and its products are sold in over 130 markets around the world. The Issuer's core businesses are its tobacco business, which address consumer needs globally for conventional cigarettes ("**CCs**") and next generation products ("**NGPs**"), its health functional foods business, which includes the sale of ginseng and complements the profit growth of the Issuer, and others, which includes its pharmaceuticals (including cosmetics) business and real estate business. As of 31 March 2026, the Issuer had 33 consolidated subsidiaries, nine associates and three joint ventures accounted for using the equity method.

For the year ended 31 December 2025, the Issuer had sales and operating profit of Won 6,579.7 billion and Won 1,343.7 billion, respectively. For the three months ended 31 March 2026, the Issuer had sales and operating profit of Won 1,703.6 billion and Won 364.5 billion, respectively. Regarding the Issuer's operating segment performance, sales (adjusted for intersegment sales) and operating profit for the year ended 31 December 2025 were Won 4,367.2 billion and Won 1,141.3 billion, respectively, in the tobacco business, Won 1,137.0 billion and Won 93.0 billion, respectively, in the health functional foods business and Won 1,075.5 billion and Won 95.9 billion, respectively, in its other businesses which include its pharmaceuticals (including cosmetics) business and real estate business. Sales (adjusted for intersegment sales) and operating profit for the three months ended 31 March 2026 were Won 1,155.9 billion and Won 321.4 billion, respectively, in the tobacco business, Won 332.6 billion and Won 23.2 billion, respectively, in the health functional foods business and Won 215.1 billion and Won 16.4 billion, respectively, in its other businesses.

Profit for the year was Won 1,102.3 billion for the year ended 31 December 2025 and profit was Won 378.2 billion for the three months ended 31 March 2026. The Issuer's total assets amounted to Won 14,189.1 billion as of 31 December 2025 and Won 14,699.8 billion as of 31 March 2026.

As of 31 December 2025, the Issuer had 4,094 full-time employees and 237 contract and part-time employees in its tobacco division. The Issuer's headquarters are located at 71, Beotkkot-gil, Daedeok-gu, Daejeon 34337, Korea.

Corporate History of the Issuer

The Korea Tobacco & Ginseng Corp. was established in 1989 and was first listed on the Korea Stock Exchange in 1999. In 2002, the company changed its name to KT&G Corporation. In 2008, the Issuer established a local subsidiary in each of Russia and Iran. For the year ended 31 December 2025, the Issuer's sales from Russia accounted for approximately 1.63% of the Issuer's total sales, and there were no sales generated from Iran. In 2011, the Issuer acquired Trisakti, an Indonesian tobacco company. The Issuer first launched its heat-not-burn tobacco products in 2017. In 2020, the Issuer formed a strategic partnership with Philip Morris International, after which a fifteen-year partnership agreement was signed in 2023 for the marketing, distribution and sale of NGPs outside of Korea. In 2021, the Issuer established a local subsidiary in Taiwan, and in 2023, the Issuer established a local subsidiary in Kazakhstan, an office in Uzbekistan and an office in Mongolia. In 2025, the Issuer converted its office in Uzbekistan to a local subsidiary.

Management Philosophy

The Issuer is aiming to become a global top-tier company with "trust, origin and professional" as the keywords of its management philosophy. To solidify "trust" with stakeholders and enhance corporate value, the Issuer is continuously promoting ESG management, and in particular, the Issuer is making company-wide efforts to respond to climate change and accelerate the circular economy by reducing greenhouse gas emissions with the goal of achieving carbon neutrality by 2045. In addition, the Issuer aims to respect the value of DEI (Diversity, Equity, and Inclusion) and aims to foster "professional" talents with hiring policies that do not restrict or discriminate based on nationality, age, gender, etc. The

Issuer also aims to foster the businesses that have formed the core of its operations since its "origin". The Issuer therefore aims to generate stable profits based on its unique, future-oriented portfolio, which the Issuer believes will enhance its sustainability.

Strategy

The Issuer's mission is to become a global top-tier company that delivers a wide range of products to its customers in its tobacco, health functional foods and other businesses. The Issuer has achieved sustained growth through a balanced business portfolio and has solidified the top position in the domestic market for the CC, NGP and health functional foods businesses. In order to further its goal of becoming a global top-tier company, the Issuer is focusing on accelerating global growth in three key growth areas – global CC, NGP and health functional foods. The Issuer's global CC business is focusing on investments to build a global production system and to expand the proportion of overseas production to secure differentiated capabilities in overseas markets. The Issuer is investing in securing overseas production bases to expand its own production capacity in order to gain a competitive edge in the global NGP market. The Issuer's subsidiary, Korea Ginseng Corp. ("**KGC**"), is promoting the global expansion of its health functional food business through a customised strategy for each region based on its globally competitive ginseng products and in-depth understanding of local markets.

Strengthening its market position. In order to strengthen its market position as one of the leading CC, NGP and health functional foods companies in Korea, the Issuer is developing marketing strategies specifically tailored to different segments of customers. The Issuer believes that the ability to expand its business is dependent on its ability to secure a strong revenue base.

Identifying future growth opportunities. The Issuer believes that identifying new markets which would present growth opportunities is important to its growth strategy. It is developing products combined with technologies to enable customers to satisfy their needs. Part of the Issuer's growth strategy is to expand its operations to overseas. For example, the Issuer established an office in Uzbekistan in 2023 and began construction of two new CC plants in Indonesia in 2024.

Creating synergies among the Issuer and its subsidiaries. The Issuer believes that it can create synergies by promoting its integrated businesses and networks. The Issuer focuses on developing competitive products, while its subsidiaries serve as the primary distribution channel for the Issuer.

Sustainability Strategy

The Issuer strives to mitigate negative impacts and to create positive impacts on various stakeholders in order to increase corporate value in consideration of its long-term sustainability. In particular, the Issuer has selected NGP and health functional foods as its sustainable business segments and are strengthening its business growth momentum by aligning these businesses with ESG values. In addition, the Issuer is enhancing corporate value by identifying and reviewing new sustainable businesses that can create synergies with the Group's businesses.

In addition, to respond to the key agendas required by global ESG international standards, such as climate change, circular economy, and biodiversity protection, the Issuer has established mid-to long-term goals for the Group in each of the priority areas. In addition, the Issuer has assigned each of its subsidiaries to improve implementation and is strengthening execution through collaboration centred on the Issuer's company-wide task force, including the ESG personnel of each of its subsidiaries. The Issuer is expanding its sustainability management promotion system to include the businesses of its subsidiaries in order to enhance ESG competitiveness. The Issuer is selecting and improving key initiatives in each of its major areas and actively managing ESG risks by establishing and implementing common standards across the value chain beyond its boundaries.

In 2023, the Issuer launched lil HYBRID 3.0 as part of the diversification of its NGP portfolio, and expanded the participation of its subsidiaries to respond to climate change and accelerate the circular economy. The Issuer also has established natural capital management strategies to protect biodiversity and is gradually expanding the scope of its human rights impact assessments and sustainability programmes for domestic and overseas business sites, farms and materials suppliers.

Products and Services

Tobacco

The Issuer's tobacco business contributed 66.4% of the Issuer's sales for the year ended 31 December 2025 and 67.9% for the three months ended 31 March 2026.

Conventional Cigarettes

In 2025, the Issuer continued its stable growth in the CC business sector. In the year ended 31 December 2025, the domestic CC business achieved a market share of 67.3%, an increase of 0.6% from the previous year, attributable mainly to continuous growth in products with reduced smell, low irritation and super-slim designs, selling a total of 37.7 billion sticks. In the same year, the global CC business reached record sales of Won 1.9 trillion, driven by exploring new markets and expanding sales in overseas subsidiaries. As of 31 March 2026, the Issuer exported 12.8 billion sticks to more than 140 countries, and its overseas subsidiaries achieved sales of 5.2 billion sticks by accumulating capabilities suitable for each subsidiary's business structure, enhancing distribution structures and establishing a basis for significant advancements. Consequently, the global CC business saw an increase of 2.3 billion sticks compared to the three months ended 31 March 2025, with total sales of 559.6 billion sticks.

In 2026, the Issuer aims to lead the domestic CC market, which is gravitating towards products with reduced smell and irritation. The Issuer plans to enhance its product lines in the extremely low-irritation and smell reduction categories and focus on the high-end market to boost profitability. In the global CC business, the Issuer will focus on profitable, sustainable and stable growth. To improve growth, regional CICs (company-in-company) will be established, and direct operations will be strengthened to secure global competitiveness.

Within the CC business, KT&G Corporation is involved in the manufacturing and sales of tobacco, and Tae-A Industrial, the only reconstituted tobacco leaf manufacturer in Korea, is expanding its business territory to overseas markets.

Top CC Products

The Issuer offers various CC products tailored to meet customer preferences and needs, including:

- ESSE CHANGE 1mg, which changes flavours from rich to fresh once the capsule in the filter tip is broken;
- ESSE PRIME, a leading ultra-slim product that offers a clean taste and rich smoking satisfaction; and
- ESSE SOO 0.1mg, which contains a bamboo-activated dual charcoal filter.

Next Generation Products (NGPs)

Of the Issuer's 66.4% of sales from its tobacco business, its NGP business contributed 13.5% of the Issuer's total sales for the year ended 31 December 2025. Of the Issuer's 67.9% of sales from its tobacco business, its NGP business contributed 14.1% of the Issuer's total sales for the three months ended 31 March 2026.

The Issuer entered into the NGP (Next Generation Products) business with the launch of the heat-not-burn product "lil SOLID" in the domestic NGP market in 2017, followed by the launch of Its proprietary platforms – "lil HYBRID" in 2018 and "lil AIBLE" in 2022. In 2023, lil HYBRID evolved into its third generation, and the nationwide launch of lil AIBLE expanded consumer choices, while the lil SOLID Ez (entry-level) was released in more than 30 countries, and the stick stock-keeping unit ("**SKU**") was expanded to achieve visible results globally. As of 2025, the Issuer recorded a market share of 46.0%in the domestic NGP market, continuing quantitative and qualitative growth. After forming a strategic alliance with Philip Morris International (PMI) in 2020, a 15-year long-term partnership agreement was signed in 2023. In the NGP market, which is the core of the future tobacco industry, the Issuer will maintain solid growth momentum through continuous platform improvement, enhanced scientific development capabilities and securing proprietary technologies.

NGP Patent Applications and Grants

	2023			2024			2025		
	Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal
Patent									
Applied	404	1,621	2,025	356	974	1,330	282	1,665	1,947
Granted	260	423	683	264	562	826	421	924	1,345
Trademark									
Applied	32	283	315	40	441	481	28	54	82
Granted	23	276	299	39	311	350	48	257	305
Design									
Applied	35	0	35	27	72	99	77	96	173
Granted	10	19	29	37	8	45	43	42	85

NGP Performance Metrics

		2023	2024	2025
Business expansion				
Unit sales of sticks[(1)]	*(in 100 million sticks)*	139.4	144.9	147.8
Consumer accessibility				
Consumer purchase market share (Based on Korea)	*(%)*	46.6	45.9	46.0
Capability and infrastructure				
NGP platforms launched	*(in device platforms)*	3	3	3
NGP patent applications	*(in cases)*	2,025	1,330	2,161

Notes:

(1) Domestic sales volume + Overseas export volume + Overseas PMI shipment

Top NGP products

The Issuer offers various NGP products, which have entered more than 30 countries as of 31 March 2026, that are tailored to meet customer preferences and needs including:

- lil HYBRID Platform: The Issuer's first proprietary platform launched in 2018, which combines a liquid cartridge with traditional electronic cigarette devices to increase vapour production.

- lil HYBRID 2.0 Platform: Combines sticks and liquid cartridges, holding a rich vapour volume.

  The P1 platform is an original heating type that captures the unique flavour of tobacco by directly heating the tobacco medium (the main material comprising the stick), offering satisfaction similar to CCs and dramatically reducing odour because it does not burn. The Fiit exclusive sticks apply high-quality leaf tobacco manufactured into a tobacco sheet, designed with an optimal stick structure that combines various filters to deliver rich flavour and vapour volume. Particularly, the

induction heating system applied to lil SOLID 2.0, launched in Korea in 2020, uniformly heats the entire heating rod through induction heating technology. It also features benefits like three consecutive uses, up to 30 sticks per use, and customisable stylar deco.

- lil HYBRID 3.0 Platform: Offers three smoking modes, pause during use and other consumer-friendly features to meet demand.

  The P2 platform is the Issuer's proprietary NGP platform combining sticks and liquid cartridges. When a dedicated stick is inserted and operated after attaching the liquid cartridge to the device, the liquid is heated, and the resulting vapour passes through the heated stick. It is also designed with an optimal cartridge structure that allows liquid composition, producing a consistent and rich vapour volume. The medium designed exclusively for the P2 platform provides a clean taste and excellent odour reduction, accommodating various smoking behaviours of consumers. Moreover, the tip of the exclusive stick is designed with a "Y" shaped structure that allows vapour to pass through while preventing tobacco residue from escaping, improving device cleaning convenience. In particular, the third-generation model is characterised by significant enhancements in usability, featuring three smoking modes, a colour display, the ability to pause during use, and a real-time cartridge remaining measurement function. Besides the standard mode, which performs identically to the existing lil HYBRID 2.0, it offers a classic mode with strong impact and a casual mode that reduces pre-heating time to 10 seconds. The pause feature allows the device to be temporarily stopped without limitation during smoking a single stick within a total of 2 minutes. The Issuer is planning to encourage transition to the third generation of lil HYBRID to accelerate growth in the global market.

- lil SOLID 2.0 Platform: A second-generation model launched in 2021 that greatly improves consumer convenience. It directly heats the medium inside the stick, creating a smoking experience similar to a CC.

- lil SOLID 4.0 Model: Expanding stick SKUs to achieve visible success globally. The Issuer is planning to expand the number of countries launching lil SOLID 4.0 in 2026.

- lil AIBLE Platform: The Issuer's second proprietary platform launched in 2022. It allows the use of three dedicated stick types – Real, Granular, Vapour Stick – with one device, expanding consumer choice through its national launch.

  Under the concept of "All Mighty – All electronic cigarettes in one device," the P4 platform allows the use of three types of sticks with one device. The lil AIBLE device and dedicated sticks heat the stick through external heating technology and generate aerosol. Previously, different devices were required for varying stick mediums, but lil AIBLE enables this functionality with a single device. It comes equipped with innovative technologies, including smart on/off and different modes for each type of stick. AI technology is also integrated to optimise smoking conditions, monitor remaining smoking amounts, and recommend charging times, ensuring an optimal environment from pre-heating to charging. The sticks for the P4 platform are categorised into three types – Real, Granular, and Vapour Stick. The Real type is composed of shredded tobacco in the stick medium, the Granular type is made of granulated tobacco. The Vapour Stick. type is a liquid type made from liquid nicotine extracted from tobacco leaves. Each type satisfies various consumer preferences according to its characteristics. The Real type provides a smoking satisfaction level of conventional cigarettes, the Granular type is developed focusing on a smooth taste, and the Vapour Stick is developed for consumers who prefer low-irritant products without the tobacco smell. The Issuer will continue its relentless technological innovation with the aim to lead the NGP market.

Tobacco Leaf Procurement

The Issuer sources tobacco leaf both from within its own internal network and from external leaf suppliers. Tobacco leaf is purchased from farmers in its raw, unprocessed form. The tobacco leaf is processed and transformed in a process mainly characterised by being mechanically blended, destemmed and then redried and packed in standardised packing units of standard specified weight, density and moisture content for subsequent storage and aging. Tobacco leaf is perishable and must be processed within a relatively short period of time to prevent deterioration in quality.

As with many other agricultural commodities, the supply of tobacco leaf is affected by availability, price of agricultural input, energy costs and supply and demand dynamics; these factors could lead leaf prices to fluctuate. See "*Risk Factors—Risks relating to the Issuer—The Issuer's operating results may be adversely affected by instabilities in the procurement of raw materials*". Under these circumstances, the Issuer aims to secure a stable supply and ensure competitive purchase prices through vertical integration of the Issuer's internal network and strengthening its relationships with external leaf suppliers.

Non-Korean origin tobacco leaf procurement

The Issuer's requirements for processed non-Korean origin tobacco leaf are procured through the Issuer's appointed tobacco suppliers. These international suppliers purchase tobacco from both directly contracted tobacco growers and thereafter market this tobacco leaf to international manufacturers. These appointed suppliers select, purchase, process, pack, warehouse and ship processed tobacco leaf to the Issuer in accordance with the Issuer's specifications. In addition, the Issuer procures the remainder of its non-Korean origin tobacco leaf through its internal supply network in which all tobacco leaf is directly purchased pursuant to contracts with tobacco growers. The Issuer sources its tobacco leaf from various countries, including Brazil and Tanzania.

Pricing

Pricing is a key component to achieve revenue growth. Price changes are generally initiated by tax changes, which normally involve increases, as well as the Issuer's attempts to increase revenue and profits. In setting a price for a product, the Issuer considers various factors, including the positioning of the brand or product, the perceived value of the product in the relevant market and the price of competing products, in order to strike an optimal balance between the potential impact on sales volume and pricing gains on revenue or profit. In general, the higher the unit price set, the greater the profitability the Issuer achieves per unit sales. The Issuer focuses on increasing value-added product offerings, as such innovative products can be priced higher.

Pricing in the tobacco business

Tax increases continue to be discussed and implemented around the world with varying degrees of consistency. the Issuer's pricing strategy takes into consideration its portfolio structure, affordability levels, illicit trade and government revenue targets. Overall, the Issuer aims to enhance predictability of the excise tax increases and avoid tax shocks which tend to destabilise markets.

Manufacturing

Processed tobacco leaf is further processed in the Issuer's factories, which includes flavouring, shredding, rolling and further drying, prior to the packaging stages of manufacturing. As of 31 March 2026, the Issuer operated six manufacturing sites (including tobacco-related factories) in four different countries. In a limited number of cases, the Issuer licenses production of some of its tobacco products to competitors.

As part of the Issuer's ongoing initiatives to strengthen its cost competitiveness, it regularly assesses the efficiency of its supply chain. The Issuer's basic policy is to manufacture its products in or close to the markets for consumption. However, the Issuer also constantly looks at efficiencies in terms of capacity

utilisation, product complexity and industry volume trends. As a result, the Issuer closes, upgrades or establishes production sites on a regular basis. The Issuer's manufacturing footprint is also affected by acquisitions.

Marketing

The Issuer's strategic focus is on core brands to enhance brand value through effective communications with consumers.

The Issuer engages in a variety of marketing activities such as sales promotion and advertising in order to enhance consumer loyalty to its brands.

Globally, the Issuer's marketing activities are heavily constrained due to regulations and the tobacco industry's voluntary restrictions on marketing. See "*Risk Factors—Risks relating to the Issuer—Restrictions on promotion, marketing, packaging, labelling and usage of tobacco products in any market in which the Issuer operates might reduce the demand for tobacco products and adversely affect the Issuer's operating results*."

Sales and Distribution

There are various sales channels for tobacco and nicotine products including supermarkets, convenience stores, street and train station kiosks, small independent stores, gas stations, specialty retail outlets and vending machines.

The Issuer's sales and distribution network varies by market in accordance with local legal restrictions, customary practice and business considerations. Where necessary, the Issuer uses a network of local agents and distributors.

Research and Development

The Issuer is committed to strengthening its research and development ("**R&D**") capabilities to ensure a long-term competitive advantage. The Issuer focuses on fundamental research and product technology development, taking advantage of the Issuer's global research platform, in close collaboration with other functions.

The Issuer has been establishing K-Science, a proprietary tobacco science research system, based on internal and external collaboration systems centred around its R&D headquarters ("**HQ**"). K-Science aims to systematically and scientifically prove the quality and safety of its products while securing internal and external reliability through transparent disclosure and external verification for consumers. To this end, in 2023, KT&G recruited overseas experts to establish the Pre-market Tobacco Product Applications ("**PMTA**") Program Center and built experimental infrastructure that meets regulatory requirements. This initiative aims to obtain PMTA approval from the U.S. Food and Drug Administration ("**FDA**"). In addition, the Issuer has strengthened its quality verification capabilities by expanding the scope of new recognitions from international accredited testing laboratories. Moving forward, the Issuer plans to focus on developing K-Science by enhancing its integrated modified risk assessment capabilities. The Issuer is also continuously promoting technological innovation to expand its business in the tobacco industry. Based on the Issuer's accumulated science and expertise, the Issuer has completed the establishment of research infrastructure in new business areas such as functional inhalants and green biomaterials and are conducting advanced research to internalise core technologies. In particular, the Issuer is developing smoking habit improvement supplements and functional substance delivery systems using its expertise and capabilities in the tobacco industry to create new markets based on inhalation science.

Competition in the Tobacco Industry

The Issuer faces competition in the tobacco and nicotine industry in terms of both product value and value chains. Competition in product value relates to competition in pricing, taste, format, package, packaging design and introduction of innovative products. Competition in value chains relates to competition in research and development, procurement of raw materials, manufacturing, marketing and distribution of tobacco and nicotine products. Tobacco companies face an increasingly competitive marketplace globally in all these aspects.

The Issuer's main competitors are Japan Tobacco, Inc., Philip Morris International, British American Tobacco and Imperial Brands, each of which have solid market positions. The Chinese market is the world's largest tobacco market and is almost exclusively operated by China National Tobacco Corporation.

The Issuer expects global competition to intensify further.

Health Functional Foods

The Issuer's health functional foods business contributed 17.3% of the Issuer's total sales for the year ended 31 December 2025 and 19.5% of the Issuer's total sales for the three months ended 31 March 2026.

KGC, the Issuer's pharmaceuticals subsidiary, is centred around the "Jung Kwan Jang" brand and is focusing on expanding from the domestic market to global markets. The domestic business sector is leading market growth by responding to increased demand in the health functional market, utilising materials other than red ginseng, launching high-value new products based on diverse efficacy, and enhancing competitiveness in on/offline channels. The global business sector established customer-centric strategies by region and achieved overseas sales of Won 252.1 billion in 2025 and Won 67.3 billion in the three months ended 31 March 2026. In particular, sales in the Chinese market grew by 3.3% in the three months ended 31 March 2026, compared to the same period in 2025.

KGC aims to achieve strong growth in the global market in 2026. It plans to focus on nurturing key strategic brands, particularly in the Chinese and American markets, continue expanding market demand through new product launches and localisation, and expand its business domains and business models into efficacy-based dietary supplements and food and beverage sectors to establish a long-term growth foundation.

Within the health functional foods business, Korea Ginseng Corp. is one of the leading manufacturers of red ginseng products that have continued the tradition of Korean Ginseng for more than 120 years. KGCYebon Corp. is a healthcare company focused on natural products of high quality. KGC Life & Gin Co., Ltd. is a beauty and health distribution company specialising in digital and door-to-door sales of health functional foods and cosmetics, B2B corporate special sales and online distribution

Research and Development

KGC is focusing on strengthening its R&D infrastructure and capabilities to secure evidence of efficacy through botanical drug-level clinical research. In 2023, KGC relocated its R&D centre from Daejeon to Gwacheon Knowledge Information Town in Gyeonggi-do to expand its R&D infrastructure and built a differentiated infrastructure by introducing new state-of-the-art equipment in a space 1.7 times larger than its previous R&D centre. KGC aims to expand overseas clinical and efficacy research in connection with local R&D centres in the U.S. and China, centred on the Gwacheon R&D Center, and to strengthen marketing effectiveness in markets with low awareness of ginseng by promoting evidence of efficacy. As part of this, KGC is activating efficacy research in collaboration with leading overseas universities to secure advanced technologies from world-class scholars and raise its R&D capabilities to the highest global level.

Moreover, KGC will develop international standard data on the efficacy, safety, and standardisation of ginseng raw materials, with an aim to register ginseng as a natural medicine with the FDA. In 2023, after five years of research, KGC's red ginseng oil was officially recognised as an individually approved functional ingredient by the Korean Ministry of Food and Drug Safety, leading to the successful launch of the new product "Red Ginseng Oil RXGIN CLEAN." Moving forward, KGC will aim to secure additional individually recognised ingredients and differentiated formulations to develop innovative products, with the aim to lead the global market beyond Korea.

In 2023, KGC established an R&D centre in Los Angeles, U.S., to expand its global network and to enhance research capabilities to a world-class level. Serving as the second global R&D hub following its first global R&D hub in Shanghai, China, it oversees not only the development of new brands but also the management of processes and quality for locally produced products. In addition, the centre is conducting clinical studies in the U.S. on the functionalities of ginseng and red ginseng, such as boosting immunity, improving blood flow and antioxidant effects. It also plays a role in collecting market information on global health functional food ingredients. Moving forward, KGC plans to accelerate the development of locally customised products that incorporate preferred ingredients and functionalities in the U.S. market through efficacy research and raw material standardisation.

KGC is focusing on securing scientific evidence for the value of ginseng and red ginseng by collaborating with leading universities and research institutions in the U.S. and Europe, among others. KGC will also continue to pursue research on the efficacy and safety of natural products and develop functional ingredients to provide differentiated value to its brands and products. Going forward, KGC will secure the excellence of ginseng through the expansion of global efficacy research, design functional products based on consumer preferences and needs, expand the market through the development of locally customised products, standardise key ingredients (such as red ginseng and deer antler), and streamline the product development process. In doing so, KGC aims to secure sustainable competitiveness and to create a "healthier and happier tomorrow for people around the world."

Delivering safe, high-quality products

As of 31 March 2026, the Issuer had two health functional food factories. The Issuer is dedicated to delivering safe and high-quality food products to its consumers by thoroughly managing food safety based on the four priorities of food safety, food defence, food quality and food communication.

Food safety standards

Two factories located inside Korea have achieved FSSC 22000 certification, which is recognised by the Global Food Safety Initiative (GFSI), a global food industry body that promotes food safety management.

In addition, its factory in China has achieved ISO 22000 certification, as an assurance of food safety.

Food defence practices

The Issuer seeks to protect its manufacturing processes and products from both intentional and inadvertent contamination. The Issuer applies robust food defence guidelines across the supply chain, both in its own factories and its contracted factories. The Issuer also carries out annual audits to check how successfully these guidelines are being implemented. Recent initiatives to strengthen the Issuer's defence mechanisms against deliberate contamination include optimising factory cameras and enhancing the way the Issuer manages chemical substances.

Enhancing food quality

The Issuer aims to ensure that all of its employees have a deep understanding of the importance of food quality through various initiatives conducted by each factory and the provision to employees of customised e-learning materials. The Issuer also aims to listen to its consumers' suggestions for improving product quality, and swiftly shares these with its factories and operations. The Issuer responds to its consumers' recommendations through its internal quality improvement system.

Food communication

The Issuer responds to consumers' requests for information and can disclose the precise factory where food products were made, or the country of origin of the main ingredients. In order to ensure food safety, the Issuer utilises a system that records information about its products at every stage of the process, from the raw materials and production to processing, distribution, and sales. This allows the Issuer to trace its products to any point, if necessary.

Sales and Distribution

In convenience stores and supermarkets, the Issuer strives to increase its exposure by offering a wider range of products and obtaining better shelf space. The Issuer's health functional foods are sold nationwide in Korea through retail stores, supermarkets, convenience stores, restaurants and other channels.

Competition in the Health Functional Foods Industry

The Issuer competes primarily on the basis of product quality, brand recognition, brand loyalty, marketing, advertising, distributional reach and price. In the Korean health functional food market, the Issuer is competing against major health functional food producers such as Amway International Inc. and Atomy Co., Ltd. as well as a number of mid- or small-scale producers. However, the Issuer is starting to see gradual segregation of competition within the industry according to the product categories these competitors respectively own. The Issuer is also subject to further competition from other existing market participants, and there remains the possibility of new entrants to the industry. The Issuer believes it is necessary to monitor trends in sales channels amid the expansion of private brand products by various distribution companies and the reorganisation of wholesale entities. The Issuer also needs to be aware of the continuing risk of price fluctuations in raw materials of its products due to sporadic global food shortages.

Others

Pharmaceuticals (including cosmetics)

The Issuer's pharmaceuticals business (non-cosmetics) contributed 3.9% of the Issuer's total sales for the fiscal year ended 31 December 2025 and 3.7% of the Issuer's total sales for the three months ended 31 March 2026.

Yungjin Pharm Co., Ltd., the Issuer's pharmaceuticals subsidiary, has been focusing on enhancing competitiveness in the domestic market and expanding its global reach to countries such as Japan and China, as well as expanding business areas such as injectable CMO (Contract Manufacturing Organization), to create new opportunities in the steadily growing pharmaceutical industry. In 2024, the company achieved its highest sales to date due to steady growth in domestic sales and contract services as well as improved profitability in global operations, turning an operating profit. Yungjin Pharm Co., Ltd. continues its strong R&D investment for sustainable growth, while also practicing ethical management by implementing internal compliance programme operations and obtaining the ISO 37001 (anti-bribery management systems) certification. In 2025, having established an advanced management system based on ISO 14001 (environmental management) and ISO 45001 (occupational health and safety management) certifications, Yungjin Pharm Co., Ltd. was selected by Sustinvest as one of the 100

companies for 'ESG Best Companies' and received the highest rating of 'AA'. In addition, the company has received a 'B+' rating for five consecutive years from the Korea Institute of Corporate Governance and Sustainability (KCGS).

Yungjin Pharm Co., Ltd. aims to increase the scale of operating profits and pursue business internalisation centered on profitability. In the domestic sales sector, the company plans to concentrate capabilities on its products and develop treatments for chronic diseases as major items. Global sales will aim for business normalisation through expansion of existing and new business sales and securing new clients. R&D will strengthen the chronic disease portfolio to establish a mid-to long-term growth foundation, and the production sector will secure production competitiveness through additional investment in antibiotic facilities.

Yungjin Pharm Co., Ltd. manufactures and exports high-quality antibiotic drugs based on its domestic essential therapeutic care (ETC) and over-the-counter businesses.

The Issuer's cosmetics business contributed 1.7% of the Issuer's total sales for the year ended 31 December 2025 and 2.0% of the Issuer's total sales for the three months ended 31 March 2026. The cosmetics industry, characterised by strong preferences and trends and low barriers to entry, is highly competitive. As purchasing channels have shifted to health and beauty) stores and online platforms, the original equipment manufacturer and original design manufacturer ("**ODM**") markets are expanding.

Within the pharmaceuticals (cosmetics) business, COSMOCOS Co., Ltd. is involved in the manufacturing and sales of cosmetics and related products with advanced technology, continuous R&D and more than thirty years of expertise. The cosmetics business achieved a 17.0% increase in sales in the year ended 31 December 2025 compared to the previous year and a 41.4% increase in sales in the three months ended 31 March 2026 compared to the three months ended 31 March 2025. Through a strategic approach centred on core businesses and restructuring the business portfolio, COSMOCOS Co., Ltd. turned a profit in 2024 and 2025. COSMOCOS Co., Ltd. plans to focus on diversifying its client portfolio and expanding presence through global inventory expansion to strengthen its ODM business foundation. The brand business will adapt to changes in consumer behaviour by repositioning its brands to secure sustainability and competitive distribution. By creating new references in non-China markets, COSMOCOS Co., Ltd. aims to build continuous growth momentum. Furthermore, it will enhance production efficiency and quality competitiveness to lay the groundwork for a sustainable corporate foundation.

Clinical Development Pipeline

As of 31 March 2026, the Issuer had 4 drug candidates at the clinical development stage. The content of the Issuer's drug development portfolio will change over time as new compounds progress from discovery to development and from development to market, and as the Issuer discontinues testing of product candidates that do not prove to be promising or feasible to develop or market. Due to the uncertainties and difficulties of the drug development process, it is not unusual for compounds, especially those in the early stages of investigation but including later stage candidates as well, to be terminated as they progress through development.

Research and Development

Research and development is a major aspect of the Issuer's pharmaceutical business and is important to its long-term growth and profitability. Research and development activities focus mainly on treatments for rare diseases and metabolic diseases, as well as research into the development of new improved medicines with improved convenience of use. The Issuer is working to enhance its research and development pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

Research and development process

The process of developing pharmaceutical products for commercialisation is extremely complex, costly and time-consuming. Only a small fraction of compounds that enter the clinical trial phases, requiring large investments, result in commercially viable products.

Production

The Issuer's pharmaceutical products are produced by Yungjin Pharm Co., Ltd. or contract manufacturers outside the Issuer.

Sales and Promotion

Sales and promotion outside Korea

Outside Korea, the Issuer currently has no sales and marketing forces of its own. The Issuer licenses out the right to develop and commercialise certain compounds in the development stage to global pharmaceutical companies and receives royalties from its partners based on sales performance.

Sales and promotion in Korea

Torii is mainly responsible for sales of the Issuer pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities.

Competition in the Pharmaceutical Industry

The pharmaceutical industry is highly competitive worldwide. The Issuer's pharmaceutical business focuses on building a research and development-led operational platform. Based on this platform, original compounds are developed and marketed as leading products in major global markets. As such, the Issuer faces competition with Korean pharmaceutical companies and multinational pharmaceutical companies.

Real Estate

The Issuer's real estate business contributed 10.8% to the Issuer's total sales in the year ended 31 December 2025 and 6.9% to the Issuer's total sales in the three months ended 31 March 2026.

The Issuer actively seeks growth opportunities in the real estate sector, utilising idled land by enhancing production and sales efficiencies to generate sustained profits. The real estate business is part of the Issuer's strategic approach to establish a balanced mid-to long-term growth engine. This strategy includes operating a sustainable business through diversification of the Issuer's business structure and securing a growth foundation by stabilising rental assets. In 2024, the Issuer successfully sold KT&G Bundang Tower with enhanced value, and it has contributed to securing investment resources for its core businesses. In 2025, the Issuer successfully sold the Euljiro Tower as well. Overall, the Issuer also manages nine major assets nationwide, generating leasing income of Won 107 billion and Won 17.5 billion in the year ended 31 December 2025 and the three months ended 31 March 2026, respectively.

The Issuer's real estate business is enhancing its ESG management in line with global ESG trends and relevant regulations. Moving forward, the Issuer will strive to establish and implement strategies for energy saving, carbon emission reduction, compliance with the Korean Occupational Safety and Health Act, and the expansion of renewable energy, with an aim to fulfil corporate social responsibilities and achieve sustainable growth.

The Issuer, through its SangSang Stay brand, promotes real estate development and operations, and SangSang Stay Hotel business, etc. using the land it owns, generates profits for corporate growth and construction.

Risk Management

Overview

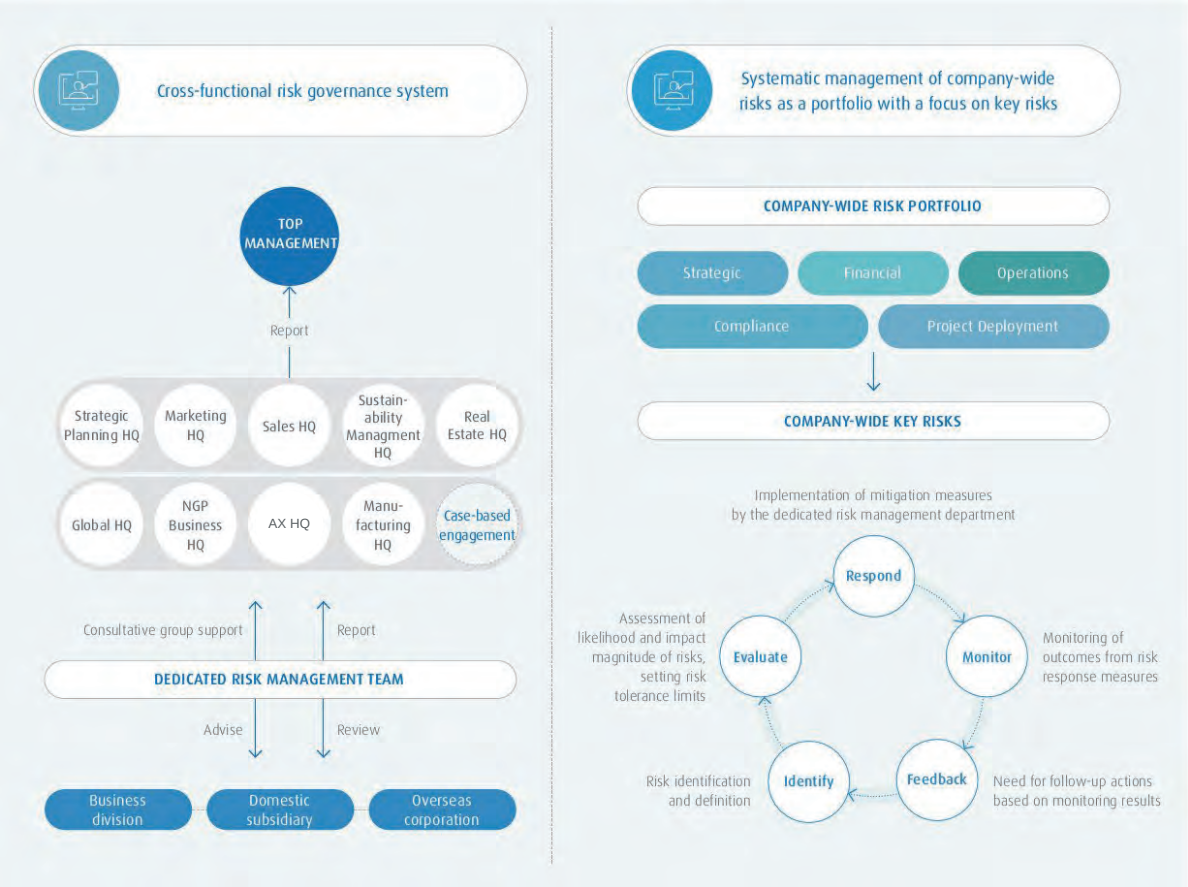
As a tobacco and health functional foods provider, the Issuer is exposed to various risks relating to their business activities and their operating environment. The Issuer identifies and prevents potential risk factors that may arise in overall management by reviewing risk factors and identifying potential risks at least twice a year. The risks to which the Issuer is exposed are financial risks, such as risks in financial report, tax, capital management and foreign currency, as well as non-financial risks, such as risks in strategy and reputation, corruption, legal and regulatory, information protection, operation and climate change. These risks are recognised, measured and reported in accordance with risk management framework established by the Issuer. The Issuer's risk management framework includes internal systems such as the controller system that addresses company-wide management risks as well as non-financial risks and special risks such as the foreign exchange rate risk.

The Issuer's risk management is guided by several principles, including:

- balancing profitability and risk management through risk-adjusted profit management;
- standardising risk management process and methodology across all companies of the Issuer under the guidelines;
- enhancing management process through effective risk analysis;
- ensuring independence of risk management from business activities;
- maintaining preventative and pragmatic risk management functions; and
- continuously monitoring for and preparing against possible deterioration.

In order to maintain the Issuer's risk at an appropriate level, the Issuer has established a multi-layer system. All employees and management of the Issuer are responsible for initial responses to risks that may arise from operations and applying internal control functions. At a departmental level, the Issuer has designated "Controllers" to ensure compliance with controller systems. At an executive level, the Performance Management Office supports frontline departments in effectively responding to overall risks and performing internal control functions through the controller system and management diagnostics. The Compliance Management Center performs compliance oversight to support the Issuer's ethical and legal management. Finally, at the board level, the Issuer's Audit Committee and its Audit Planning Office under the Committee supervises risk management. The Audit Committee annually monitors the Issuer's comprehensive risk strategies across operational departments, performance management offices, internal regulations, guidelines, manuals, and processes to ensure compliance from an independent position.

The diagram below sets out the Issuer's risk management system.



Performance Management Office

The Issuer's Performance Management Office is a specialised organisation for performance and risk management. The Issuer laid the foundations of a company-wide risk management system in 2023 and continues to develop this system through the Issuer's Performance Management Office. This risk management system is used to identify potential risks across all business sectors in advance, to establish preventive measures and proactive response measures, and to thus minimise the risk impact. The Issuer's Performance Management Office operates controller systems, management diagnoses and reporting packs at the Group level for domestic and international business sites and subsidiaries. The Issuer's controller system is used to analyse and address risk factors objectively across business units, domestic subsidiaries, and overseas entities and branches. The Issuer's controller system, currently implemented at Global, Manufacturing and Supply Chain Management (SCM) headquarters, is planned to expand its scope of control and capacity.

Audit Committee

The Issuer's Audit Committee and the Audit Planning Office, an independent organisation under the Audit Committee, monitor and oversee the Issuer's risk management. The Issuer's Audit Committee consists of non-executive directors. The Issuer's Audit Planning Office developed an audit pool for each of the Issuer's main business segments and systematically conducts internal audits to report their results to the Audit Committee. Then, the effectiveness of control activity procedures and operation is evaluated by evaluating the operation of the internal accounting control system. Any issues identified during the evaluation process are resolved through discussions with the external independent auditors and the dedicated department. The Issuer has also established an e-audit portal system to monitor business-related risks and corruption risks using 39 items, and when abnormal data is detected, an explanation is requested immediately.

ESG Risk Management

The Issuer has a climate change risk management process integrated into the company-wide risk management system to pre-emptively respond to and to address ESG risks. The Issuer's ESG Management Office in the Issuer's Strategy Division performs control tower roles to oversee the identification of risks and opportunities and reports relevant content to the Issuer's Sustainability Committee under the Issuer's board of directors.

Information Technology

The Issuer's IT system comprises of three main systems: the transaction system, the information system and the interface system. The Issuer uses such systems to manage application processing, account management, payments, customer retention and related functions. These systems allow customer service representatives to access specific account information when responding to customer inquiries. All customer data and servers are subject to protection from security breaches through extensive security systems and firewall software.

The Issuer has undertaken significant efforts to protect and manage its proprietary systems and the data collected and stored on its systems. This data includes company information with property value such as financial information, research and development, intellectual property rights, product information, business strategy, marketing strategy including pricing policy and merger and acquisition information as well as personal information on the Issuer's customers and employees. For such purposes, the Issuer has continued to focus on ways to secure its systems from unauthorised users. Furthermore, the Issuer established guidelines for information security and handling and obtained certifications such as ISO 27001, an international standard certification for information protection, and ISMS-P, a domestic information protection and privacy management system certification, to secure objective credibility for its information protection management.

The Issuer's Corporate Secret Protection Committee, consisting of a Chief Security Officer and a Chief Information Security Officer, oversees information security and privacy. The Issuer's Chief Security Officer handles human, managerial, technical and physical protection to safeguard corporate secrets and serves as the chairperson of the Issuer's Corporate Secret Protection Committee. The Chief Information Security Officer manages major information security tasks, including those related to personal information and information management, and submits agenda items to the Corporate Secret Protection Committee. Then, the Corporate Secret Protection Committee reviews, deliberates and resolves annual information protection activity plans, including the establishment and revision of information protection-related regulations, information protection certification and the establishment of security systems. Any major issues related to information security that arise as a result of deliberations are reported to the Issuer's Chief Strategy Officer and major issues are reported to the Sustainability Committee under the Issuer's board of directors to systematically respond to related risks.

The Issuer also conducts inspections to manage and update its policies. These inspections include corporate secret protection inspection to manage information protection related company rules and policies, personal information compliance inspection based on compliance with personal information-related laws and regulations, vulnerability inspection to prepare for internal and external threats and security solution policy inspection to prevent security risks of security solutions.

Legal Proceedings

The Issuer had 21 pending lawsuits as a defendant as of 31 March 2026. The total claim amount was approximately Won 158,621 million, without a separate legal provision included in allowance for litigation in the accompanying financial statements.

These proceedings generally may be classified as: (i) smoking-related cases for harm allegedly caused by smoking, (ii) business-related cases unrelated to smoking and (iii) other cases such as claims unrelated to smoking and business.

Additional losses may be incurred from these legal actions, but the amount of loss is not expected to have a material adverse effect on the Issuer's financial position or results of operations.

MANAGEMENT AND EMPLOYEES

Management

Board of Directors

Governance and management of the Issuer are the responsibility of the Issuer's board of directors (the "**Board**"), which oversees the operations of the Issuer through several governing bodies. The address for each of the directors on the Board is: KT&G Corporation, 71, Beotkkot-gil, Daedeok-gu, Daejeon 34337, Korea. The Board comprises of eight directors, six of whom are eligible independent directors under the Commercial Law of Korea (the "**Commercial Law**"). Under the Commercial Law, at least half of the Board members must be constituted from eligible independent directors. Independent directors must not engage in the regular business of the Issuer and must satisfy certain eligibility requirement under the Commercial Law. Independent directors must be appointed from the candidate recommended by the Independent Director Nomination Committee at the general meeting of shareholders. The Independent Director Nomination Committee selects such candidates after screening candidates using the evaluation criteria proposed by the Board.

The use of independent directors is a result of the Issuer's commitment to improve its corporate governance structure by separating the decision-making function from the execution function. The independent directors, who must be at least three and should constitute more than 50.0 per cent. of the Board, monitor the governance of the Issuer.

Directors are elected for a renewable term of three years or less as determined in the general meeting of shareholders. The term of a newly appointed independent director due to a vacancy must be for the remainder of the predecessor's term. An independent director's total term of office (including renewed terms) cannot exceed six years. Terms are renewable subject to Korean Commercial Code and related regulations. The Board meets on a regular basis, every quarter on average, to discuss the daily operations of the Issuer. Additional extraordinary meetings can also be convened at the request of the chairman of the Board.

Executive Director

Two out of eight directors of the Issuer is engaged in the regular business of the Issuer, as of the date of this Offering Circular. The following table sets forth certain information on the executive director.

Name	Director Since	Position
Bang, Kyung-man	Director since 20 March 2021; CEO since 29 March 2024	CEO
Lee, Sang-hak	CSO/CFO since 29 March 2024; Director since 27 March 2025	COO/CFO

Independent Directors

As of the date of this Offering Circular, the Issuer had six independent directors, none of whom were engaged in the regular business of the Issuer, and all of whom are appointed from the candidate recommended by the Independent Director Nomination Committee as listed below. The following table sets forth certain information on them.

Name	Director Since	Position Outside the Issuer
Shon, Kwan-soo	30 March 2022	–
Lee, Jee-hee	30 March 2022	CEO of W Camp
Kwak, Sang-wook	29 March 2024	Consulting Attorney at Hwahyeon Law Firm
Shon, Dong-hwan	29 March 2024	Professor at Sungkyunkwan University, School of Law
Nho, Hwan-yong	27 March 2026	Non-executive Director of LG Sangrok Foundation
Han, Soong-soo	27 March 2026	Professor at Korea University, College of Business

Committees

Currently, the Issuer has six standing committees and one non-standing committee serving under the Board: the Governance Committee, the Evaluation & Compensation Committee, the Management Committee, the Sustainability Committee, the Audit Committee, the Independent Director Nomination Committee and the CEO Nomination Committee. The responsibilities of each of the committees are subject to requirements under the Commercial Law and determined by the Board pursuant thereunder.

Governance Committee

The Governance Committee currently consists of three independent directors. This committee is responsible for proposing the criteria used to evaluate the candidates for independent director and CEO and reviewing the proposals for the establishment or amendment of governance-related regulations, such as the articles of incorporation, the regulation of the board of directors and the corporate governance charter. The Committee is in charge of making decisions on the overall governance system, including proposing the operating standards of the Board and its committees and improving them, and determining the criteria for screening candidates for CEO and independent director.

Evaluation & Compensation Committee

The Evaluation & Compensation Committee currently consists of three Board members. This committee is responsible for the evaluation of the performance of and remuneration calculations for specific employees and directors. This committee is responsible for reviewing and approving the management evaluation and compensation of the CEO, determining the terms of the contract with the nominee for CEO, including management goals, and stipulating the compensation and severance pay of management executives.

Management Committee

The Management Committee currently consists of two executive directors. This committee is responsible for reviewing the legal and regulatory management risks and making certain management decisions as prescribed by the regulation of the Board. This committee is responsible for reviewing and approving management activities and investment decisions above the threshold.

Sustainability Committee

The Sustainability Committee currently consists of two independent directors and one executive director. This committee is responsible for establishing strategies for the Issuer's sustainable management and determining ESG-related issues. The committee is responsible for reviewing and approving the basic policies and strategies for sustainable management of the Issuer and setting mid- to long-term goals.

Audit Committee

The Audit Committee currently consists of four independent directors. The Audit Committee oversees the Issuer's financial reporting and approves the appointment of its independent auditors. This committee also reviews the Issuer's financial information, the independent auditor's examinations, key financial statement issues and the administration of its financial affairs by the Board. Under the Commercial Code, at least two-thirds of the members of the Audit Committee must be appointed from the independent directors, one of whom must be a financial expert. With respect to shareholder meetings, this committee reviews the agenda for shareholder meetings and the financial statements and other reports that the Board is required to submit to each shareholder meeting. This committee holds regular meetings on a quarterly basis.

Independent Director Nomination Committee

The Independent Director Nomination Committee currently consists of four independent directors. This committee is responsible for reviewing and approving the qualification and selection of independent director candidates to be recommended to the general meeting of shareholders and other matters delegated by the Board.

CEO Nomination Committee

The CEO Nomination Committee is a non-standing committee and is composed of no more than six independent directors as determined by the Board. The CEO and the executive director are not eligible to serve on the committee. This committee is responsible for nominating and selecting the CEO.

Remuneration

The aggregate remuneration and benefits in kind granted by the Issuer to its registered Directors for the year ended 31 December 2025 was approximately Won 1,818 million.

Loans to Directors and Other Transactions

As of 31 March 2026, there were no loans outstanding made by the Issuer to its Directors and statutory auditor. There are no guarantees provided by the Issuer for the benefit of any of the Issuer's Directors, statutory auditor or senior management. None of the Directors or officers has or had any interest in any transaction effected by the Issuer which are or where unusual in their nature or conditions or significant to the business of the Issuer and which were effected during the current or immediately preceding year or where effected during an earlier year and remain in any respect outstanding or unperformed.

Employees

As of 31 December 2025, the Issuer had a total of 4,094 full-time employees and 237 contract and part-time employees in its tobacco division. The Issuer believes that it has a good relationship with its employees. The Issuer has not experienced a work stoppage of a serious nature. The union and management negotiate and enter into a new collective bargaining agreement annually.

The Issuer's employee compensation is based on a combination of the agreed-upon base salary and bonuses. The bonus system is based on individual performance and business unit performance. The Issuer, like most other companies in Korea, grants its employees annual increases in basic wages and pays periodic bonuses and overtime. For the year ended 31 December 2025, salaries and wages (including post-employment and termination benefits) comprised 35.8 per cent. of total sales, general and administrative expense of the Issuer. The Issuer provides a wide range of fringe benefits to its employees, including medical care assistance and educational and training opportunities.

THE KOREAN TOBACCO AND HEALTH FUNCTIONAL FOODS INDUSTRIES

The Tobacco Industry in Korea

Historical Overview of the Tobacco Industry in Korea

The tobacco industry in Korea transitioned from a government monopoly to an industry with competition among private companies. Initially, only the government could engage in the production of raw materials in the tobacco industry, the purchase of tobacco leaves and the manufacturing and sale of tobacco products. In 1948, the Monopoly Bureau of the Ministry of Finance was established. The government directly managed the manufacturing and sale of tobacco through the Monopoly Bureau. In April 1987, the Korea Monopoly Corporation (the "**KMC**"), to which the government contributed the entire capital, was established under the Korea Monopoly Corporation Act. The KMC had the exclusive right to manufacture tobacco products, and only the KMC and individuals designated as sellers of manufactured tobacco products held the right to sell tobacco products under the Tobacco Monopoly Act. In April 1989, the Korea Tobacco and Ginseng Corporation (the "**KTGC**"), to which the government contributed at least 51% of the capital, was established under the Korea Tobacco and Ginseng Corporation Act. Since then, the government-monopolized system in the tobacco industry has been abolished, and the exclusive right to manufacture and sell domestic tobacco products, which were previously held by the government, were transferred to the KTGC. The import of foreign tobacco products became possible in this period. With the liberalisation of the import of foreign tobacco products, the right to sell imported foreign tobacco products was granted to the importer registered under the Tobacco Business Act. Finally, in October 1997, in accordance with the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises, the KTGC transitioned into a stock company under the Commercial Act of Korea, and in 2001, the monopolized system of manufacturing and sale of tobacco products was completely abolished.

Changes in the Tobacco Industry in Korea

In 2015, the government raised the price of tobacco from Won 2,500 to Won 4,500, causing sales to decrease by 23.7%, from Won 4.36 billion in 2014 to Won 3.33 billion in 2015. Since then, tobacco sales have remained lower than in 2014. Liquid type e-cigarettes and heated tobacco products were introduced in the Korean tobacco market in 2008 and 2017, respectively. Since then, the market share of heated tobacco products rapidly grew from 2.2% of the total domestic tobacco market in 2017 to 18.4% in 2024. The amended Tobacco Business Act came into force on April 24, 2026, in order to ensure that liquid-type electronic cigarettes using synthetic nicotine, as well as conventional cigarettes and heated tobacco products, are subject to the same regulatory framework, by expanding the scope of "tobacco" from products made from tobacco leaves to include all products containing tobacco and nicotine (including both natural and synthetic). Accordingly, from next year, it is expected that the market size and sales volume of liquid-type e-cigarettes will also be identified in specific terms. Various new tobacco products are also emerging, including flavoured cigarettes and products that reduce odour or nicotine content to improve accessibility.

The Health Functional Foods Industry in Korea

The Growth of the Health Functional Foods Industry in Korea

The Health Functional Foods Industry was introduced in the 1980s. With economic development in the 1980s, more people became interested in their health as their standard of living improved. Furthermore, Koreans faced increasing health issues due to stress, irregular eating habits, excessive consumption of junk food and environmental pollution caused by industrial development. As a result, the health functional foods gained popularity as people sought to better their health, including through their consumption of health functional foods. From the introduction of health functional foods to the mid-to-late 1990s, the health functional foods industry grew dramatically. Multilevel marketing businesses drove the initial rapid growth as their vendors sold health functional foods as their main products. The market size of the health functional foods industry expanded from Won 5 billion in the mid-1980s to Won 800 billion in 1993.

The Decline and Revitalisation of the Health Functional Foods Industry in Korea

Despite the prosperity of the health functional foods industry in the early 1990s, the industry started to decline after the second half of 1990 due to an economic downturn and internal problems within the industry, such as false and exaggerated advertising, price gouging and side effects associated with certain health functional foods. The Korea Consumer Agency's announcements brought awareness to these side effects. As the issues within the industry burgeoned into problems affecting larger segments of society, the need for regulations grew. In August 2002, the Health Functional Foods Act was enacted to regulate facility standards, market entrance through permission/registration, quality and specifications of the product and hygiene, among other areas. Also, various regulations and guidelines were subsequently created to provide consumers with accurate information about health functional foods and prevent damages and losses caused by false and exaggerated advertising.

In recent years, the size of the health functional foods industry has grown due to the increase of health-conscious consumers. The market size of the domestic health functional food industry was approximately Won 4.40 trillion in 2020 and has grown to approximately Won 5.46 trillion in 2024, showing 24.1% growth compared to 2020. The total sales volume of the domestic health functional food industry was approximately Won 2.95 trillion in 2019 and has grown to approximately Won 4.01 trillion in 2024, showing 35.9% growth compared to 2019. The number of the health functional foods manufacturers has increased from 496 in 2017 (439 specialised manufacturers and 57 venture manufacturers) to 607 in 2024 (519 specialised manufacturers and 88 venture manufacturers). Also, the number of health functional foods sellers has increased from 88,834 in 2017 (85,855 general sellers and 2,979 distribution-specialised sellers) to 126,804 in 2023 (121,174 general sellers and 5,630 distribution-specialised sellers). Furthermore, various types of health functional foods have emerged to meet the growing diversity of demand. In 2024, red ginseng held the largest share (21.5%) of the domestic health functional food industry in terms of production, followed by vitamins/minerals (17.4%), Individually Approved Ingredients (ingredients that can be used only after receiving approval from the Ministry of Food and Drug Safety) (17.2%) and probiotics (15.9%). New and diversified product formulations such as gummies, jellies, liquid sticks and stick jellies are increasingly popular among people who seek health functional foods without sacrificing taste.

A new trend in the health functional foods industry is customising health functional foods based on individual lifestyles, health conditions and genetic information. Previously, the sale of repackaged or customised products by combining various health functional foods was prohibited. In response to the increasing demand for customisation, the Health Functional Foods Act was amended to allow sales of individually customised health functional foods, which are products repackaged and combined based on personal needs.

TAXATION

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-resident corporations ("**Non-Residents**") generally depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest on the Notes paid to Non-Residents (excluding payments to their Permanent Establishment in Korea), being foreign currency denominated notes issued outside of Korea, is exempt from individual income tax and corporate income tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "**STTCL**").

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of individual income tax or corporate income tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14 per cent. of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10 per cent. of the individual income tax or corporate income tax (raising the total tax rate to 15.4 per cent.).

The tax is withheld by the payer of the interest or, where the transfer takes place before interest payment is made, by the purchaser of the instrument, or a designated withholding agent of such payer or purchaser.

The tax rates may be reduced or exempted by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer of the Notes taking place outside Korea are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance and is denominated in a foreign currency under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty eliminating tax on capital gains, the applicable rate of tax would be the lower of 11 per cent. (including local income tax) of the gross realisation proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22 per cent. (including local income tax) of the realised gain (i.e., the excess of the gross realisation proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean tax law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Notes issued by Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty and on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. (including local income tax) of the gross realisation proceeds. The purchaser or withholding agent must pay any withholding tax to the competent Korean tax office no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was a Korean resident (as such term is defined under Korean inheritance and gift tax laws) and (b) all property located in Korea that passes on death (irrespective of the residence of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10 per cent. to 50 per cent.

Under Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisers regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Issuer. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5 and 15 per cent. (including local income tax), and the tax on capital gains is often eliminated.

Each Noteholder should enquire for itself whether it is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer, the purchaser or the withholding agent, as applicable, a certificate as to its residence. In the absence of sufficient proof, the Issuer, the purchaser or the withholding agent, as applicable, must undertake to withhold taxes in accordance with the above discussion.

A special withholding tax system took effect on 1 July 2006. Under the system, there is a special procedure to apply the Korea-Malaysia tax treaty on certain Korean source income. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4 per cent. for interest and the lower of 11 per cent. of gross realisation proceeds or 22 per cent. of capital gains (including local income tax)) rather than the reduced or exempted rate available under the

Korea Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to obtain a refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and is an actual resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

In order to claim the benefit of a reduced tax rate or tax exemption available under the applicable tax treaties, a Non-Resident holder must submit to the payer of such Korean-sourced income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for tax exemption" under a tax treaty along with a certificate of the non-resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("**BO Application**"), provided that if such tax exemption is being sought to be applied to an amount that is Won 1 billion or more (including where the aggregate amount exempted within one year from the last day of the month in which the payment was made, is Won 1 billion or more), in addition to the certificate of tax residence issued by a competent authority of the Non-Resident holder's residence country, it will also be required to submit the names and addresses of all of the members of board of directors, the identities and shareholding percentages of all of shareholders (provided that if there are more than 100 shareholders, the Non-Resident holder may instead provide a statement showing the total number of shareholders and aggregate investment amount from each country), and audit reports for the most recent three years submitted to the country of residence (or, if the entity has been in existence for less than three years, audit reports since incorporation). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. If there is no change in the contents of such application or OIV report, it is not required to submit such application or OIV report again within three years thereafter. However, this requirement does not apply to exemptions under Korean tax law.

Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is defined as an organisation established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing of, or otherwise investing in proprietary targets and then distributes the outcome of such management to investors, "**OIV**") and such OIV is not the beneficial owner of such income, a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners (together with the applicable BO Application and certificate of the non-resident holder's tax residence in case of exemption from withholding tax), to the withholding agent prior to the payment date of such income. Effective from 1 January 2022, an OIV is deemed to be a beneficial owner of the Korean source income if (i) under the applicable tax treaty, the OIV bears tax liabilities in the country in which it is established; and (ii) the Korean source income is eligible for the treaty benefits under the tax treaty. The benefits under a tax treaty between Korea and the country of such OIV's residence will apply with respect to the relevant income paid to such OIV, subject to certain application requirements as prescribed by the Corporate Income Tax Law or Individual Income Tax Law.

In the case of an application for tax exemption, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income. In the case of an application for a reduced withholding tax rate, the withholding agent is required to submit such application (together with the supporting documents and the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the end of February of the year following the year in which the payment of such income occurred.

At present, Korea has not entered into any tax treaties regarding its inheritance tax or gift tax.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in *"Terms and Conditions of the Notes – Taxation and Gross-Up*") the Issuer has agreed to pay (subject to the customary exceptions as set out in *"Terms and Conditions of the Notes – Taxation and Gross-Up*") such Additional Amounts as may be necessary in order that the net amounts received by the holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such holder in the absence of such withholding or deduction.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and UBS AG Hong Kong Branch (the "**Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 13 July 2026, agreed to subscribe and pay for the Notes on a firm commitment basis the principal amounts of the Notes subject to certain conditions contained therein.

The Issuer will also reimburse the Managers in respect of certain of their expenses, and the Issuer has agreed to indemnify the Managers against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue and sale of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

The initial issue price is set forth on the cover of this Offering Circular. After the Notes are released for sale, the Managers may change the issue price and other selling terms. The offering of the Notes by the Managers is subject to receipt and acceptance and subject to the Managers' right to reject any order in whole or in part.

The Managers and certain of their respective affiliates have, from time to time, performed, and may in the future perform, certain investment banking, commercial banking and advisory services for the Issuer and/or their respective affiliates for which they have received or will receive customary fees and expenses.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer.

The Managers or their affiliates may subscribe the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be subscribers of the Notes).

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the Managers accordingly.

CMIs are informed that the marketing and investor targeting strategy for this offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any UK MiFIR product governance language set out elsewhere in this offering circular.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the Notes.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Managers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to: DCM.Omnibus@citi.com; hk_syndicate_omnibus@hsbc.com.hk; ol-ubs-dcm-hk-syndicate@ubs.com

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and

providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in this offering. The Managers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Manager with such evidence within the timeline requested.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Switzerland

The offering of the Notes in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**"). The Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Circular does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes.

Hong Kong

Each Manager has represented and agreed that:

(i) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been, and will not be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Korea

The Notes have not been and will not be registered under the FSCMA. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transactions Act of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea, except as otherwise permitted under applicable Korean laws and regulations. In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a Korean QIB who is registered with the KOFIA as a Korean QIB. Furthermore, the Notes acquired by all Korean QIBs at the time of issuance must be no more than 20 per cent of the aggregate principal amount of the Notes.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 – *Prospectus Exemptions or subsection* 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Transfer Restrictions

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Notes.

Transfer Restrictions under Korean Law

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) The Notes have not been and will not be registered under the FSCMA. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transactions Act of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea, except as otherwise permitted under applicable Korean laws and regulations. In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a Korean **QIB** who is registered with the KOFIA as a Korean **QIB**. Furthermore, the Notes acquired by all Korean QIBs at the time of issuance must be no more than 20 per cent of the aggregate principal amount of the Notes.

(b) The Notes will bear legends to the effect described in paragraph (a) above.

Other Transfer Restrictions Applicable to the Notes

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Except in certain limited circumstances, interests in the Notes may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream and their respective direct and indirect participants. See "*Terms and Conditions of the Notes*" and "*The Global Certificate.*"

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction and are subject to significant restrictions on transfer.

(b) Until forty (40) days after the commencement of offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(c) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Notes except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(d) The Notes will bear legends to the following effect, unless the Issuer determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THE NOTES EVIDENCED HEREBY (THE "**NOTES**") OF KT&G CORPORATION (THE "**ISSUER**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**").

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND THE REGULATIONS THEREUNDER) OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENTS OF KOREA, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, DURING THE FIRST YEAR AFTER THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A "QUALIFIED INSTITUTIONAL INVESTOR" (A "**KOREAN QIB**,"AS DEFINED IN THE REGULATION ON SECURITIES ISSUANCE, PUBLIC DISCLOSURE, ETC. OF KOREA) WHO IS REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION AS A KOREAN QIB, PROVIDED THAT THE AMOUNT OF THE NOTES ACQUIRED BY SUCH KOREAN QIBS IN THE PRIMARY MARKET IS LIMITED TO NO MORE THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Notes will be passed upon for the Issuer by Lee & Ko as to matters of Korean law and for the Managers by Linklaters LLP as to matters of English law. Lee & Ko may rely as to all matters of English law on the opinion of Linklaters LLP and Linklaters LLP may rely as to all matters of Korean law on the opinion of Lee & Ko.

INDEPENDENT ACCOUNTANTS

With respect to the interim consolidated financial statements as of and for the three months ended 31 March 2026 and 2025, included in this Offering Circular, EY Han Young (formerly, Ernst & Young Han Young) has reported that it applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in this Offering Circular states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their separate report on such information should be restricted in light of the limited nature of the review procedures applied.

The Issuer's audited consolidated financial statements as of and for the years ended 31 December 2025, 2024 and 2023 included in this Offering Circular has been audited by EY Han Young (formerly, Ernst & Young Han Young), independent auditor, as stated in their reports appearing herein.

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Report on review of interim consolidated financial statements

(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors
KT&G Corporation

We have reviewed the accompanying interim consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as of March 31, 2026, and the related interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for each of the three-month periods ended March 31, 2026 and 2025, 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*.

EY한영

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Other matters

We have audited the consolidated statement of financial position as of December 31, 2025, 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, 2026 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2025, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.

EY Han Young

May 8, 2026

This review report is effective as of May 8, 2026, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modifications to this review report.

KT&G Corporation and its subsidiaries

Interim consolidated financial statements
for each of the three-month periods ended March 31, 2026 and 2025

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

Kyung-Man Bang
Chief Executive Officer
KT&G Corporation

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

KT&G Corporation and its subsidiaries

Interim consolidated statements of financial position

as of March 31, 2026 (unaudited) and December 31, 2025

(in millions of Korean won)

	Notes	March 31, 2026	December 31, 2025
Assets			
Current assets			
Cash and cash equivalents	22,23	₩ 1,101,407	₩ 913,503
Current other financial assets	22,23	339,361	303,277
Current financial assets measured at fair value through profit or loss	22,23	281,398	61,431
Trade and other receivables	5,16,21,22	1,883,353	1,691,394
Derivative assets	22,23	2,529	4,965
Inventories	6	3,157,759	3,284,784
Refund assets and others		702	792
Accrued tobacco excise tax and others		459,786	490,835
Advanced payments	23	93,554	70,515
Prepaid expenses		137,784	163,051
Current income tax assets		2,067	398
Assets held for sale	4,25	33,622	41,298
Total current assets		7,493,322	7,026,243
Non-current assets			
Long-term other financial assets	22,23	38,494	38,478
Long-term deposits in MSA Escrow Fund	22,23	1,744,961	1,676,086
Long-term financial assets measured at fair value through profit or loss	22,23	299,945	333,291
Long-term trade and other receivables	5,16,21,22	158,355	159,600
Long-term financial assets measured at fair value through other comprehensive income or loss	22	134,383	187,911
Investments in associates and joint ventures	4,7,21,23	815,176	813,934
Property, plant and equipment	8,23	2,919,003	2,822,977
Intangible assets	9	170,861	170,875
Investment properties	10,23	663,526	665,021
Right-of-use assets	11	61,065	62,068
Long-term advance payments	23	89,936	89,959
Long-term prepaid expenses		28,171	23,056
Deferred income tax assets	20	57,677	79,435
Net defined benefit assets	14	24,930	40,193
Total non-current assets		7,206,483	7,162,884
Total assets		₩ 14,699,805	₩ 14,189,127
Liabilities			
Current liabilities			
Short-term borrowings	12,22,23	₩ 225,344	₩ 332,978
Current portion of long-term borrowings	12,22,23	68,995	68,864
Current portion of bonds	13,22	329,821	329,742
Current portion of convertible bonds	13,22	14,778	23,728
Trade and other payables	21,22	2,065,696	1,563,861
Current lease liabilities	22	25,633	25,419
Derivative liabilities	22,23	23,485	8,540
Advance receipts	16	91,934	31,870
Current refund liabilities and provisions	15	30,431	45,096
Current income tax liabilities	20	183,226	218,967
Tobacco excise tax payables and others		610,930	587,772
Total current liabilities		3,670,273	3,236,837
Non-current liabilities			
Long-term borrowings	12,22,23	107,476	106,405
Long-term bonds	13,22	931,189	907,350
Long-term convertible bonds	13,22	17,204	16,911
Long-term trade and other payables	22,23	283,009	273,347
Long-term lease liabilities	22	31,033	31,790
Long-term advance receipts	16	1,980	2,758
Net defined benefit liabilities	14	45,524	42,659
Long-term refund liabilities and provisions	15	7,768	7,857
Deferred income tax liabilities	20	270,209	220,575
Non-controlling interests liabilities	22	6,285	6,469
Total non-current liabilities		1,701,677	1,616,121
Total liabilities		₩ 5,371,950	₩ 4,852,958

(in millions of Korean won)

	Notes	March 31, 2026	December 31, 2025
Equity			
Share capital		₩ 954,959	₩ 954,959
Other capital surplus		8,422	7,889
Treasury shares		(639,654)	(835,255)
Gain on disposal of treasury shares		530,357	529,633
Other components of equity		146,700	70,367
Retained earnings		8,276,355	8,551,967
Equity attributable to owners of the Parent Company		9,277,139	9,279,560
Non-controlling interest		50,716	56,609
Total equity		₩ 9,327,855	₩ 9,336,169
Total liabilities and equity		₩ 14,699,805	₩ 14,189,127

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 periods ended March 31, 2026 and 2025 (unaudited)

(in millions of Korean won)	Notes	March 31, 2026	March 31, 2025
Continuing operations			
Sales	4,16	₩ 1,703,598	₩ 1,491,108
Cost of sales		(881,438)	(737,425)
Gross profit		822,160	753,683
Selling, general and administrative expense	17,21	(457,624)	(468,123)
Operating profit	4	364,536	285,560
Other income	18,21,22	207,627	84,936
Other expense	18,21,22	(99,650)	(71,858)
Finance income	19,21,22	30,285	35,166
Finance costs	19,22	(22,018)	(16,545)
Share of net profit of associates and joint ventures	7	17,912	7,353
Profit arising from net monetary assets		9,622	12,811
Profit before income tax		508,314	337,423
Income tax expense	20	(129,755)	(77,242)
Profit from continuing operations		378,559	260,181
Discontinued operations			
Loss from discontinued operations	25	(319)	(2,252)
Profit for the period		₩ 378,240	₩ 257,929
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		₩ (1,995)	₩ (302)
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	22	8,600	(1,283)
Capital changes in equity method	7	92	(8)
Items that will be reclassified to profit or loss			
Exchange differences on translating foreign operations		78,370	24,940
Capital changes in equity method	7	6,724	10
		91,791	23,357
Total comprehensive income for the period		₩ 470,031	₩ 281,286
Profit for the period attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 380,856	₩ 257,868
Loss from discontinued operations	25	(319)	(2,252)
Profit attributable to owners of the Parent Company		380,537	255,616
Non-controlling interests			
Profit (loss) from continuing operations		(2,297)	2,313
Profit (loss) from discontinued operations	25	-	-
Profit (loss) attributable to non-controlling interests		(2,297)	2,313
Total		₩ 378,240	₩ 257,929
Total comprehensive income (loss) for the period attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 472,571	₩ 281,240
Loss from discontinued operations	25	(62)	(2,285)
Total comprehensive income attributable to owners of the Parent Company		472,509	278,955
Non-controlling interests			
Profit (loss) from continuing operations		(2,478)	2,331
Profit (loss) from discontinued operations	25	-	-
Total comprehensive income (loss) attributable to non-controlling interests		(2,478)	2,331
Total		₩ 470,031	₩ 281,286
Earnings (loss) per share:			
Basic and diluted			
From continuing operations *(in Korean won)*		₩ 3,669	₩ 2,391
From discontinued operations *(in Korean won)*		(3)	(21)
		₩ 3,666	₩ 2,370

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 three-month periods ended March 31, 2026 and 2025 (unaudited)

(in millions of Korean won)	Share capital	Other capital surplus	Treasury shares	Gains on disposal of treasury shares	Other components of equity	Retained earnings	Owners of the parent	Non-controlling interest	Total equity
Balance as of January 1, 2025	₩ 954,959	₩ 5,944	₩ (1,030,541)	₩ 529,029	₩ (3,465)	₩ 8,783,245	₩ 9,239,171	₩ 119,294	₩ 9,358,465
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	255,616	255,616	2,313	257,929
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(320)	(320)	18	(302)
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	(1,283)	-	(1,283)	-	(1,283)
Exchange differences on translating foreign operations	-	-	-	-	24,940	-	24,940	-	24,940
Capital changes in equity method	-	-	-	-	2	-	2	-	2
Other comprehensive income (loss) for the period	-	-	-	-	23,659	(320)	23,339	18	23,357
Total comprehensive income (loss) for the period	-	-	-	-	23,659	255,296	278,955	2,331	281,286
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(453,069)	(453,069)	-	(453,069)
Retirement of treasury shares	-	-	194,258	-	-	(194,258)	-	-	-
Share-based payment	-	(913)	1,030	778	-	-	895	-	895
Total transactions with owners of the Parent Company	-	(913)	195,288	778	-	(647,327)	(452,174)	-	(452,174)
Balance as of March 31, 2025	₩ 954,959	₩ 5,031	₩ (835,253)	₩ 529,807	₩ 20,194	₩ 8,391,214	₩ 9,065,952	₩ 121,625	₩ 9,187,577
Balance as of January 1, 2026	₩ 954,959	₩ 7,889	₩ (835,255)	₩ 529,633	₩ 70,367	₩ 8,551,967	₩ 9,279,560	₩ 56,609	₩ 9,336,169
Total comprehensive income (loss) for the period									
Profit(loss) for the period	-	-	-	-	-	380,537	380,537	(2,297)	378,240
Other comprehensive income (loss) for the period:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(1,814)	(1,814)	(181)	(1,995)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	-	-	-	-	8,600	-	8,600	-	8,600
Transfer from gain (loss) on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(17,453)	17,453	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	78,370	-	78,370	-	78,370
Capital changes in equity method	-	-	-	-	6,816	-	6,816	-	6,816
Other comprehensive income (loss) for the period	-	-	-	-	76,333	15,639	91,972	(181)	91,791
Total comprehensive income (loss) for the period	-	-	-	-	76,333	396,176	472,509	(2,478)	470,031
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(477,530)	(477,530)	-	(477,530)
Retirement of treasury shares	-	-	194,258	-	-	(194,258)	-	-	-
Changes in non-controlling interest	-	1,542	-	-	-	-	1,542	(3,415)	(1,873)
Share-based payment	-	(1,009)	1,343	724	-	-	1,058	-	1,058
Total transactions with owners of the Parent Company	-	533	195,601	724	-	(671,788)	(474,930)	(3,415)	(478,345)
Balance as of March 31, 2026	₩ 954,959	₩ 8,422	₩ (639,654)	₩ 530,357	₩ 146,700	₩ 8,276,355	₩ 9,277,139	₩ 50,716	₩ 9,327,855

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 three-month periods ended March 31, 2026 and 2025 (unaudited)

(in millions of Korean won)	Notes	March 31, 2026	March 31, 2025
Cash flows from operating activities		₩ 386,220	₩ 99,708
Cash generated from operations	24	485,881	186,928
Income taxes paid		(99,661)	(87,220)
Cash flows from investing activities		(151,379)	(125,462)
Interest received		49,554	10,687
Dividends received		25,002	14,952
Decrease in other financial assets		1,000	59,746
Decrease in current financial assets measured at fair value through profit or loss		26,099	20,384
Decrease in long-term financial assets measured at fair value through profit or loss		8,374	1,183
Decrease in financial assets measured at fair value through other comprehensive income or loss		65,667	-
Disposal of property, plant and equipment		4,661	323
Disposal of intangible assets		1,451	3,652
Disposal of investment properties		-	105
Disposal of assets held for sale		10,000	-
Disposal of investments in associates and joint ventures		73	-
Collection of loans		6,704	8,615
Collection of guarantee deposits		2,292	1,555
Increase in other financial assets		(59,546)	(68,418)
Increase in current financial assets measured at fair value through profit or loss		(190,032)	(4,294)
Increase in long-term financial assets measured at fair value through profit or loss		(5,643)	(9,219)
Acquisition of property, plant and equipment		(52,121)	(119,269)
Acquisition of intangible assets		(12,753)	(6,676)
Acquisition of investment properties		(697)	(42)
Acquisition of right-of-use assets		(166)	(1,154)
Increase in loans		(29,416)	(36,044)
Increase in guarantee deposits		(1,882)	(1,548)
Cash flows from financing activities		(142,050)	(122,643)
Dividends paid		(1,875)	-
Interest paid		(14,260)	(16,520)
Repayment of lease liabilities		(8,676)	(6,874)
Repayment of borrowings		(891,701)	(952,761)
Proceeds from borrowings		783,412	853,512
Repayment of bond		(8,950)	-
Net increase(decrease) in cash and cash equivalents		92,791	(148,397)
Cash and cash equivalents at the beginning of the period		913,503	1,135,968
Effect of exchange rate fluctuation on cash and cash equivalents		95,113	31,145
Cash and cash equivalents at the end of the period		₩ 1,101,407	₩ 1,018,716

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

1. Reporting Entity

1.1 Overview of the Parent Company

KT&G Corporation (the “Parent Company”) is engaged in manufacturing and selling tobaccos. As of March 31, 2026, the Parent Company has four manufacturing plants, including the Daejeon plant, and 11 local headquarters and 88 branches for the sale of tobacco throughout the country. Also, the Parent Company has the Gimcheon plant for fabrication of leaf tobacco and the Sejong 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 31, 2001 and October 17, 2002, respectively (each GDR represents the right to receive one-half ordinary share of the Parent Company). Then on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

1.2 Consolidated Subsidiaries

Details of the Group's consolidated subsidiaries as of March 31, 2026 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%)	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	March 31, 2026	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	March 31, 2026	Korea
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	March 31, 2026	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	March 31, 2026	Korea
	SangSang Stay Inc.	Real estate development and rental business	100.00	March 31, 2026	Korea
	Renzoluc Pte., Ltd.	Other Professional Services	100.00	March 31, 2026	Singapore
	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	March 31, 2026	Indonesia
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	100.00	March 31, 2026	Turkiye
	KT&G Pars	Manufacturing and selling tobaccos	99.99	March 31, 2026	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	March 31, 2026	Russia
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	March 31, 2026	Kazakhstan
	KT&G USA Corporation	Selling tobaccos	100.00	March 31, 2026	USA
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	March 31, 2026	Russia
	KT&G Taiwan Corporation	Selling tobaccos	100.00	March 31, 2026	Taiwan
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	March 31, 2026	Kazakhstan
	KT&G Global TAS FE LLC	Selling tobaccos	100.00	March 31, 2026	Uzbekistan
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	March 31, 2026	Brazil
	Gwacheon SangSang PFV Inc.	Real estate development and sales business	51.00	March 31, 2026	Korea
	Mastern No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	March 31, 2026	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	March 31, 2026	Korea
	Cheongna Medipolis Development Co., Ltd.	Real estate service business	66.67	March 31, 2026	Korea
Korea Ginseng Corporation	KGC Yebon Corporation	Manufacturing and selling medical herbs	100.00	March 31, 2026	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	March 31, 2026	Korea
	CENTRAL PHARM INC.	Selling health functional food	50.01	March 31, 2026	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	March 31, 2026	China
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	March 31, 2026	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	March 31, 2026	Japan
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	March 31, 2026	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	March 31, 2026	USA
CENTRAL PHARM	Pacific 365, Inc	Selling health functional food	50.01	March 31, 2026	USA
Cosmocos Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	March 31, 2026	China
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	March 31, 2026	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Manufacturing and selling tobaccos	99.99	March 31, 2026	Indonesia

1.2 Consolidated Subsidiaries (cont'd)

For the three-month period ended March 31, 2026, the Parent Company converted its convertible preferred shares of Renzoluc Pte., Ltd. into 6,978,948 common shares at a 1:1 ratio, and additionally acquired 6,139,313 common shares of Renzoluc Pte., Ltd. by converting unpaid dividends into common shares.

For the three-month period ended March 31, 2026, Korea Ginseng Corporation, a subsidiary of the Parent Company, additionally acquired 1,000,000 shares of Korean Red Ginseng Corp., Inc. amounting to ₩ 14,728 million through the paid-in capital increase.

For the year ended December 31, 2025, the Parent Company acquired additional equity securities of PT Trisakti Purwosari Makmur held by Renzoluc Pte., Ltd. at ₩ 165,116 million.

For the year ended December 31, 2025, the Parent Company additionally acquired equity securities of ₩ 39,595 million in KT&G Kazakhstan LLP through issuance of new stocks.

For the year ended December 31, 2025, the Parent Company sold all of its equity securities of ₩ 35,552 million in DNC Deogeun Co., Ltd.

For the year ended December 31, 2025, the Parent Company acquired ₩ 27,753 million of KT&G Global TAS FE LLC through investment establishment.

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.

For the three-month period ended March 31, 2026, the Group has changed the presentation and classification system of equity items to enhance the understandability and comparability of the financial statements. The reserves distributable for dividends have been reclassified as retained earnings, while other items within reserves have been reclassified as other components of equity. This change in presentation and classification does not affect the total equity or profit for the year. The comparative financial statements presented for the year ended December 31, 2025 have been restated to reflect this change. The adjustments were not due to material errors or changes in accounting policy, and have been reflected appropriately in accordance with KIFRS.

(2) New and Amended Standards and Interpretations Adopted by the Group

The Group has not early adopted any standards, interpretations or amendments that have been published but are not yet effective for the reporting period. There are various amendments and interpretations which have been applied for the first time in 2026. As of March 31, 2026, these amendments and interpretations do not have a material impact on the interim consolidated financial statements.

2. Material Accounting Policies (cont'd)

(a) Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Classification and Measurement of Financial Instruments*

Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures* include:

- a clarification that a financial liability is derecognized on the "settlement date" and the introduction of an accounting policy choice (if specific conditions are met) to derecognize financial liabilities settled using an electronic payment system before the settlement date;
- additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed;
- clarifications on what constitute "non-recourse features" and what are the characteristics of contractually linked instruments; and
- the introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

(b) Annual Improvements to KIFRS – Volume 11

The annual improvements to KIFRS – Volume 11 has been issued to enhance consistency of requirements between standards, clarify ambiguous parts and improve understandability.

- KIFRS 1101 First-*time Adoption of KIFRS*: *Hedge accounting by a first-time adopter*
- KIFRS 1107 *Financial Instruments: Disclosures*: *Gain or loss on derecognition and implementation guidance*
- KIFRS 1109 *Financial Instruments*: *Derecognition of lease liabilities and definition of transaction price*
- KIFRS 1110 *Consolidated Financial Statements*: *Determination of a "de facto agent"*
- KIFRS 1007 *Statement of Cash Flows*: *Cost method*

2. Material Accounting Policies (cont'd)

(c) Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Contracts Referencing Nature-dependent Electricity*

Amendments to KIFRS 1109 and KIFRS 1107 - *Contracts Referencing Nature-dependent Electricity* have been issued. The amendments:

- clarify the application of the "own-use" requirements for in-scope contracts;
- amend the designation requirements for a hedged item in a cash flow hedging relationship for in-scope contracts; and
- add new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

(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, 2025, 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, 2025, except for the estimates used to determine the income tax expense.

4. Operating Segment

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

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

(b) Details of the segment information on sales and operating profit for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 1,315,099	₩ 351,108	₩ 118,748	₩ 98,574	₩ 1,883,529	₩ (179,931)	₩ 1,703,598
Intersegment sales	(159,177)	(18,511)	(1,817)	(426)	(179,931)	179,931	-
External sales	1,155,922	332,597	116,931	98,148	1,703,598	-	1,703,598
Operating profit[1]	321,372	23,231	15,643	786	361,032	3,504	364,536
Depreciation and amortization	60,572	11,243	5,148	2,931	79,894	(1,765)	78,129

[1]Other income or expenses items not comprising the operating profit are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

(in millions of Korean won)	March 31, 2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 1,118,017	₩ 364,177	₩ 104,100	₩ 89,745	₩ 1,676,039	₩ (184,931)	₩ 1,491,108
Intersegment sales	(129,940)	(49,797)	(3,722)	(1,472)	(184,931)	184,931	-
External sales	988,077	314,380	100,378	88,273	1,491,108	-	1,491,108
Operating profit[1]	241,309	21,999	11,644	4,295	279,247	6,313	285,560
Depreciation and amortization	48,796	12,468	7,874	2,754	71,892	(3,139)	68,753

[1]Other income or expenses items not comprising the operating profit are not separately disclosed because the Chief Operating Decision Maker does not review them by segment.

4. Operating Segment (cont'd)

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

(in millions of Korean won)			March 31, 2026	March 31, 2025
Revenue recognized at a point in time:				
Tobacco		Wholesale and retail	₩ 1,152,706	₩ 971,788
		Direct sales	3,216	16,289
Ginseng		Wholesale and retail	172,878	168,692
		Direct sales	159,719	145,688
Others		Wholesale and retail	97,797	87,724
		Direct sales	351	549
Real estate		Sales	4,885	7,332
	Subtotal		1,591,552	1,398,062
Revenue recognized over time:				
Real estate		Sales	94,547	69,049
		Rental	17,499	23,997
	Subtotal		112,046	93,046
	Total		₩ 1,703,598	₩ 1,491,108

(d) The segment information on assets and liabilities as of March 31, 2026 and December 31, 2025 is as follows:

(in millions of Korean won)	March 31, 2026						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 9,846,233	₩ 2,238,114	₩ 950,211	₩ 270,072	₩ 13,304,630	₩ (3,718,624)	₩ 9,586,006
Investments in associates and joint ventures	332,117	-	432,012	51,047	815,176	-	815,176
Assets held for sale	33,622	-	-	-	33,622	-	33,622
Subtotal	₩ 10,211,972	₩ 2,238,114	₩ 1,382,223	₩ 321,119	₩ 14,153,428	₩ (3,718,624)	₩ 10,434,804
Common assets							4,265,001
Total assets							₩ 14,699,805
Acquisition of non.current assets	₩ 66,579	₩ 9,099	₩ 120	₩ 3,900	₩ 79,698	₩ (13,546)	₩ 66,152
Liabilities:							
Segment liabilities	₩ 3,300,871	₩ 216,509	₩ 9,386	₩ 89,126	₩ 3,615,892	₩ (903,958)	₩ 2,711,934
Common liabilities							2,660,016
Total liabilities							₩ 5,371,950

(in millions of Korean won)	December 31, 2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 9,569,209	₩ 2,332,163	₩ 948,509	₩ 265,239	₩ 13,115,120	₩ (3,631,549)	₩ 9,483,571
Investments in associates and joint ventures	324,836	-	449,130	39,968	813,934	-	813,934
Assets held for sale	41,298	-	-	-	41,298	-	41,298
Subtotal	₩ 9,935,343	₩ 2,332,163	₩ 1,397,639	₩ 305,207	₩ 13,970,352	₩ (3,631,549)	₩ 10,338,803
Common assets							3,850,324
Total assets							₩ 14,189,127
Acquisition of non current assets	₩ 650,010	₩ 35,230	₩ 940	₩ 16,432	₩ 702,612	₩ (10,019)	₩ 692,593
Liabilities:							
Segment liabilities	₩ 3,134,737	₩ 225,255	₩ 12,305	₩ 115,857	₩ 3,488,154	₩ (895,295)	₩ 2,592,859
Common liabilities							2,260,099
Total liabilities							₩ 4,852,958

4. Operating Segment (cont'd)

Common assets 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, deferred tax assets and others; common liabilities include borrowings, deferred tax liabilities and others.

(e) The segment information by region where a customer is located for each of the three-month periods ended March 31, 2026 and 2025 is as follows:

(in millions of Korean won)	March 31, 2026			March 31, 2025		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 964,327	₩ 739,271	₩ 1,703,598	₩ 938,303	₩ 552,805	₩ 1,491,108
Non.current assets	2,771,278	1,043,177	3,814,455	3,054,575	689,526	3,744,101

The segment information classified as the above Overseas category is not separately disclosed by each country as sales and non-current assets of certain country is not material.

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

5. Trade and Other Receivables

(a) Details of trade and other receivables as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026		December 31, 2025	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,745,385	₩ -	₩ 1,537,432	₩ -
Loans	24,598	117,098	23,297	101,097
Other receivables	32,356	-	53,711	7,359
Guarantee deposits	69,192	40,063	60,455	50,192
Accrued income	11,822	1,194	16,499	952
Total	₩ 1,883,353	₩ 158,355	₩ 1,691,394	₩ 159,600

(b) Details of trade and other receivables at a gross amount before deduction of allowances for doubtful accounts and allowances for doubtful accounts therefor as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026		December 31, 2025	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,932,899	₩ 158,442	₩ 1,732,260	₩ 159,687
Allowances for doubtful accounts:				
Trade receivables	(39,922)	-	(31,735)	-
Other receivables	(9,624)	(87)	(9,131)	(87)
Total allowances	(49,546)	(87)	(40,866)	(87)
Net trade and other receivables	₩ 1,883,353	₩ 158,355	₩ 1,691,394	₩ 159,600

(c) Changes in allowance for doubtful accounts for trade and other receivables for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 40,953	₩ 41,793
Impairment loss[1]	8,008	1,312
Write off	(1)	-
Net exchange difference and others	673	498
Ending balance	₩ 49,633	₩ 43,603

[1] Including reversal of impairment loss of ₩ 20 million classified as profit from discontinued operations for the three-month period ended March 31, 2026 and impairment loss of ₩ 1 million classified as loss from discontinued operations for the three-month period ended March 31, 2025.

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

6. Inventories

(a) Details of inventories as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026			December 31, 2025		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 76,959	₩ (12,820)	₩ 64,139	₩ 79,848	₩ (10,133)	₩ 69,715
Finished goods	416,823	(13,652)	403,171	438,081	(13,180)	424,901
Half.finished goods and work in progress	1,277,377	(2,114)	1,275,263	1,311,484	(1,165)	1,310,319
Raw materials	1,082,912	(9,115)	1,073,797	1,062,186	(9,230)	1,052,956
Supplies	122,630	-	122,630	116,368	-	116,368
By.products	11,116	-	11,116	11,416	-	11,416
Buildings under construction	65,921	-	65,921	72,355	-	72,355
Completed buildings	30,510	(1,574)	28,936	80,694	(2,838)	77,856
Sites for construction of real estate	50,199	-	50,199	64,248	-	64,248
Goods in transit	62,587	-	62,587	84,650	-	84,650
Total	₩ 3,197,034	₩ (39,275)	₩ 3,157,759	₩ 3,321,330	₩ (36,546)	₩ 3,284,784

(b) The amount of loss on valuation (and reversal thereof) and loss on obsolescence of inventories recognized for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Cost of sales:		
Impairment loss on valuation of inventories (reversal)	₩ 3,297	₩ (4,034)
Loss on obsolescence of inventories	8,018	4,055
Other expense:		
Loss on obsolescence of inventories	283	427
Total	₩ 11,598	₩ 448

7. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 813,934	₩ 482,349
Acquisition	(68)	-
Shares of net profit or loss	17,912	7,353
Dividends	(26,005)	(12,425)
Changes in equity	9,403	3
Ending balance	₩ 815,176	₩ 477,280

8. Property, Plant and Equipment

Changes in property, plant and equipment for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 2,822,977	₩ 2,664,382
Acquisition[1]	51,944	150,249
Disposal/Impairment	(1,029)	(336)
Depreciation	(55,488)	(46,901)
Reclassification,etc.[2]	100,599	10,676
Ending balance	₩ 2,919,003	₩ 2,778,070

[1]For the three-month period ended March 31, 2026, the Group has capitalized borrowings costs amounting to ₩ 5,395 million (for the three-month period ended March 31, 2025: ₩ 6,205 million) for property, plant and equipment that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.2%-4.4% (for the three-month period ended March 31, 2025: 3.6%-9.6%).

[2]Including ₩ 657 million of transfers to investment properties and ₩ 44,831 million of transfers from inventories for the three-month period ended March 31, 2026, and ₩ 1,348 million of transfers to investment properties and ₩ 19 million of transfers to intangible assets for the three-month period ended March 31, 2025.

9. Intangible Assets

Changes in intangible assets for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 170,875	₩ 179,681
Acquisition	9,260	5,084
Disposal/Impairment	(1,802)	(4,088)
Amortization	(7,692)	(7,954)
Reclassification, etc.[1]	220	(74)
Ending balance	₩ 170,861	₩ 172,649

[1]Including ₩ 19 million of transfers from property, plant and equipment for the three-month period ended March 31, 2025.

10. Investment Properties

Changes in investment properties for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 665,021	₩ 761,154
Acquisition[1]	697	42
Depreciation	(5,952)	(5,576)
Reclassification,etc.[2]	3,760	(13,149)
Ending balance	₩ 663,526	₩ 742,471

[1]For the three-month period ended March 31, 2026, the Group has capitalized borrowing costs amounting to ₩ 11 million (for the three-month period ended March 31, 2025: ₩ 31 million) for investment properties that are qualifying assets. The rate used to calculate capitalizable borrowing costs is 4.2% (for the three-month period ended March 31, 2025: 3.9%-4.0%).

[2]Consisting of ₩ 657 million of transfers from property, plant and equipment for the three-month period ended March 31, 2026, and ₩ 1,348 million of transfers from property, plant and equipment and ₩ 14,500 million of transfers to inventories for the three-month period ended March 31, 2025.

11. Right-of-use Assets

Changes in right-of-use assets for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 62,068	₩ 50,498
Acquisition	8,708	8,984
Disposal	(2,392)	(1,493)
Depreciation	(8,997)	(8,322)
Reclassification, etc.	1,678	1,244
Ending balance	₩ 61,065	₩ 50,911

12. Borrowings

(a) Details of short-term borrowings as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	Lender	Annual interest rate (%)	March 31, 2026	December 31, 2025
Borrowings	Hana Bank	FTP(6 months)+0.69	₩ -	₩ 200,000
	Hana Bank Shanghai branch	LPR(1 year)-0.35	2,187	2,048
	NH Nonghyup Bank	MOR(3 months)+1.00	95,000	100,000
	Citi Bank	2.35	-	2,755
	Shinhan Bank	MOR(6 months)+1.22	100,000	-
		Bank Debenture (6 months)+0.41	10,000	10,000
		Bank Debenture (6 months)+1.05	1,500	1,500
	Korea Development Bank Cooperatives	3.21	14,000	14,000
		Subtotal	222,687	330,303
Others	Others	4.60~5.00	2,657	2,675
		Total	₩ 225,344	₩ 332,978

12. Borrowings (cont'd)

(b) Details of the current portion of long-term borrowings and long-term borrowings as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)	March 31, 2026	December 31, 2025
Other financial loan for working capital[1]	NH Nonghyup Bank	2026.06.30~ 2027.06.20	-	₩ 13,290	₩ 13,144
Financial agricultural mid.term loan[1]	NH Nonghyup Bank	2028.07.19~ 2030.07.02	-	49,864	49,170
Borrowings	NH Nonghyup Bank	2028.11.21	3.00	11,880	11,701
		2026.12.27~ 2028.12.27	3.00	7,452	7,340
	Korea Development Bank	2026.12.02	Industrial Financial Debenture (6 Months)+1.23	20,000	20,000
		2030.03.20	Industrial Financial Debenture (1 year)+1.27	15,500	15,500
		2030.11.20	Industrial Financial Debenture (1 year)+1.27	2,000	2,000
	Mirae Asset Capital Co., Ltd.	2026.08.29	CP+1.41	46,336	46,239
	Shinhan Bank	2027.06.26	Financial Debenture (6 months)+1.75	10,000	10,000
Others	Korea SMEs And Startups Agency	2027.09.27	3.06	149	175
	Total			₩ 176,471	₩ 175,269
Consolidated statements of financial position:					
Current				₩ 68,995	₩ 68,864
Non.current				107,476	106,405
	Total			₩ 176,471	₩ 175,269

[1]The above loans are Contract Cultivation Fund for Ginseng-Integration Project provided as the policy fund for facilitating agriculture, forestry and fisheries sectors by the Ministry of Agriculture, Food and Rural Affairs of the Republic of Korea. Therefore, the interest rate on the loan is 0%, and the amount of present value discounts is recognized as government grants after calculating the present value.

(c) As discussed in Note 23.(c) to the consolidated financial statements, the Group is providing collateral for the above borrowings.

13. Bonds

(a) Details of bonds as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	Issuance Date	Maturity	Annual interest rate (%)	March 31, 2026	December 31, 2025
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	₩ 200,000	₩ 200,000
3-1st non-guarantee public bonds	2024.04.25	2026.04.24	3.624	50,000	50,000
3-2nd non-guarantee public bonds	2024.04.25	2027.04.23	3.763	150,000	150,000
3-3rd non-guarantee public bonds	2024.04.25	2029.04.25	3.808	100,000	100,000
4-1st non-guarantee public bonds	2024.10.08	2026.10.08	3.218	80,000	80,000
4-2nd non-guarantee public bonds	2024.10.08	2027.10.08	3.306	160,000	160,000
4-3rd non-guarantee public bonds	2024.10.08	2029.10.08	3.335	70,000	70,000
Senior unsecured notes denominated in foreign currency	2025.05.02	2028.05.02	5.000	454,020	430,470
	Subtotal			1,264,020	1,240,470
	Discount			(3,010)	(3,378)
	Total			₩ 1,261,010	₩ 1,237,092
Consolidated statements of financial position:					
Current				₩ 329,821	₩ 329,742
Non-current				931,189	907,350
	Total			₩ 1,261,010	₩ 1,237,092

13. Bonds (cont'd)

(b) Convertible bonds

Details of the book values of convertible bonds issued by the Group as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)		March 31, 2026		December 31, 2025
Face value	₩	34,200	₩	42,800
Redemption premium		578		928
Conversion right adjustment		(2,796)		(3,089)
Total	₩	31,982	₩	40,639
Consolidated statements of financial position:				
Current	₩	14,778	₩	23,728
Non-current		17,204		16,911
Total	₩	31,982	₩	40,639

Details of issuance condition of convertible bonds issued by the Group as of March 31, 2026 are as follows:

Classification	Details	
Type and name	2nd unregistered coupon non-guarantee private convertible bond	1st unregistered non-guarantee private convertible bond
Underwriter	MIRAE ASSET SECURITIES CO.,LTD. and 15 other underwriters	Korea Investment & Securities Co., Ltd. and 13 other underwriters
Issuing company	Yungjin Pharm. Co., Ltd.	Yungjin Pharm. Co., Ltd.
Issuance date	Nov. 28, 2025	Nov. 21, 2023
Maturity date	Nov. 28, 2030	Nov. 21, 2028
Total issuance amount	₩ 25,100 million[1]	₩ 30,300 million
Remaining issuance amount	₩ 25,100 million[1]	₩ 14,200 million
Conversion price per share	₩ 1,999	₩ 2,305
Number of shares issued at conversion	12,556,278 shares	6,160,521 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.	(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 Nov. 28, 2026 to Oct. 28, 2030	From November 21, 2025 to October 21, 2028
Conversion ratio	100% of bond price	100% of bond price
Early redemption right	On May 28, 2028, which is two years and six months from the date of issuance of the bond, and on each date falling every three months thereafter (an "early redemption payment date"), the bondholders of this bond may request early redemption before maturity for the entire amount calculated by multiplying the electronic registration amount for which early redemption is requested by the early redemption rate. However, if an early redemption payment date is not a business day, repayment shall be made on the following business day, and no interest shall accrue for the period after the early redemption payment date.	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	-	-

[1]Out of the total issuance amount of ₩25,100 million for the 2nd unregistered coupon non-guarantee private convertible bonds, the Parent Company acquired ₩ 5,100 million.

14. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Defined benefit plans:		
Current service cost	₩ 12,090	₩ 13,146
Net interest on net defined benefit liabilities (assets)	85	369
Subtotal	12,175	13,515
Defined contribution plan:		
Contributions recognized as expense	4,651	3,462
Other long-term employee benefits:		
Current service cost, etc.	2,143	1,914
Termination benefits:		
Voluntary retirements, etc.	5,238	57,792
Total	₩ 24,207	₩ 76,683

(b) Details of net defined benefit liabilities (assets) as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026	December 31, 2025
Present value of defined benefit obligations	₩ 589,700	₩ 589,322
Fair value of plan assets	(569,106)	(586,856)
Total	₩ 20,594	₩ 2,466

15. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026		December 31, 2025	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 6,087	₩ -	₩ 3,853	₩ -
Refund liabilities	18,207	7,101	17,197	7,234
Provision for site restoration	1,545	647	1,564	581
Provision for financial guarantee	85	20	87	40
Provision for others	4,507	-	22,395	2
Total	₩ 30,431	₩ 7,768	₩ 45,096	₩ 7,857

(b) Changes in refund liabilities and provisions for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 3,853	₩ 3,884	₩ (1,650)	₩ 6,087
Refund liabilities	24,431	11,041	(10,164)	25,308
Provision for site restoration	2,145	74	(27)	2,192
Provision for financial guarantee	127	-	(22)	105
Provision for greenhouse gases	-	-	-	-
Provision for others	22,397	795	(18,685)	4,507
Total	₩ 52,953	₩ 15,794	₩ (30,548)	₩ 38,199

(in millions of Korean won)	March 31, 2025			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 6,194	₩ 1,690	₩ (1,733)	₩ 6,151
Refund liabilities	20,842	8,851	(8,131)	21,562
Provision for site restoration	2,240	60	(69)	2,231
Provision for financial guarantee	32	12	(18)	26
Provision for greenhouse gases	13	13	(26)	-
Provision for others	17,382	1,047	(797)	17,632
Total	₩ 46,703	₩ 11,673	₩ (10,774)	₩ 47,602

16. Real Estate Pre-sales Contracts

(a) Details of ongoing real estate pre-sale contracts for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)

	March 31, 2026							
Construction project	**Initial sales contract date**	**Expected completion date**	**Progress (%)**	**Total sales value[1]**	**Total sales contract value**	**Revenue (cumulative)[2]**	**Revenue (period)[3]**	**Cost (cumulative)[4]**
Suwon Hwaseo Prugio Briciel	Jun. 2020	Sep. 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonhansesang Daejeon Station Centum Vista	Dec. 2022	May. 2026	91.57	212,889	192,719	175,484	6,720	160,690
Elif Mia Station Complex 1	May. 2023	Aug. 2026	81.35	61,562	44,907	36,334	2,588	28,969
Elif Mia Station Complex 2	May. 2023	Aug. 2026	79.01	155,141	109,786	86,437	7,374	68,209
ePyeonhansesang Pyeongchon Urban Valley	Apr. 2024	Oct. 2026	70.23	399,869	397,970	278,152	30,253	172,569
Digital Empire Pyeongchon Biz Valley	Apr. 2024	Mar. 2027	65.43	348,222	338,258	187,805	43,115	168,053
Anyang-dong Mixed-Use apartment building	Jan. 2025	May. 2026	86.69	42,044	41,574	36,042	4,497	32,163
	Total			₩ 2,022,783	₩ 1,873,184	₩ 1,548,200	₩ 94,547	₩ 968,754

[1] Including the expected sales value for commercial buildings and efficiency apartments that are scheduled to be recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer.

[2] Presenting the amount after deducting prepayment discounts, etc. from the total sales contract value.

[3] Excluding the revenue of ₩ 4,885 million recognized as sales at a point in time when the constuction is completed and control of the goods is transferred to the customer for the three-month period ended March 31, 2026.

[4] Excluding cumulative costs of ₩ 310,670 million for common infrastructure (see Note 23 (d)).

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

(in millions of Korean won)

	March 31, 2025							
Construction project	**Initial sales contract date**	**Expected completion date**	**Progress (%)**	**Total sales value[1]**	**Total sales contract value**	**Revenue (cumulative)[2]**	**Revenue (period)[3]**	**Cost (cumulative)[4]**
Suwon Hwaseo Prugio Briciel	Jun. 2020	Sep. 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonhansesang Daejeon Station Centum Vista	Dec. 2022	Jun. 2026	64.98	226,951	192,719	124,756	5,183	105,513
Nokbeon-dong Mixed-Use apartment building	Apr. 2023	Apr. 2025	96.23	29,720	25,220	24,269	1,762	15,949
Elif Mia Station Complex 1	May. 2023	Aug. 2026	46.81	61,562	44,907	20,913	2,264	16,041
Elif Mia Station Complex 2	May. 2023	Aug. 2026	43.87	155,141	109,786	48,009	5,358	35,993
ePyeonhansesang Pyeongchon Urban Valley	Apr. 2024	Oct. 2026	30.41	399,869	397,970	120,831	19,899	74,533
Digital Empire Pyeongchon Biz Valley	Apr. 2024	Mar. 2027	31.09	352,769	146,625	38,825	18,437	32,276
Anyang-dong Mixed-Use apartment building	Jan. 2025	May. 2026	38.84	42,044	41,574	16,145	16,146	14,377
Goyang Hyangdong district knowledge industry center[5]	Mar. 2021	Jul. 2023	100.00	541,142	502,711	482,560	-	313,982
	Total			₩ 2,612,254	₩ 2,209,482	₩ 1,624,254	₩ 69,049	₩ 946,765

[1] Including the expected sales value for commercial buildings, efficiency apartments and Knowledge Industry Center that are scheduled to be recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer.

[2] Presenting the amount after deducting prepayment discounts, etc. from the total sales contract value.

[3] Excluding the revenue of ₩ 7,332 million recognized as sales at a point in time when the constuction is completed and control of the goods is transferred to the customer for the three-month period ended March 31, 2025.

[4] Excluding cumulative costs of ₩ 293,584 million for common infrastructure.

[5]As of March 31, 2025, 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)

(b) Details of receivables and payables for ongoing real estate pre-sale contracts as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)

Construction project	March 31, 2026			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonhansesang Daejeon Station Centum Vista	175,484	45,894	130,303	713
Elif Mia Station Complex 1	36,334	5,343	31,359	368
Elif Mia Station Complex 2	86,437	13,669	74,327	1,559
ePyeonhansesang Pyeongchon Urban Valley	278,152	86,947	192,468	1,263
Digital Empire Pyeongchon Biz Valley	187,805	15,608	172,197	-
Anyang-dong Mixed-Use apartment building	36,042	-	36,042	-
Total	₩ 1,548,200	₩ 914,822	₩ 637,283	₩ 3,905

[1]As of March 31, 2026, due from customers for contract assets is ₩ 600,663 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

[2]Including advance receipts 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, 2025			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 747,359	₩ 587	₩ -
ePyeonhansesang Daejeon Station Centum Vista	168,764	35,889	133,588	713
Nokbeon-dong Mixed-Use apartment building	27,160	27,160	-	-
Elif Mia Station Complex 1	33,746	5,366	28,627	247
Elif Mia Station Complex 2	79,063	13,572	66,329	838
ePyeonhansesang Pyeongchon Urban Valley	247,899	86,603	161,861	565
Digital Empire Pyeongchon Biz Valley	144,691	19,937	124,754	-
Anyang-dong Mixed-use apartment building	31,545	-	31,545	-
Total	₩ 1,480,814	₩ 935,886	₩ 547,291	₩ 2,363

[1]As of December 31, 2025, due from customers for contract assets is ₩ 526,952 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

[2]Including advance receipts for the option contract (balcony) in relation to main construction, which is recognized using percentage of completion method.

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

(c) No material changes in estimated total contract revenues and total contract costs have occurred for the three-month period ended March 31, 2026. 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 March 31, 2026, and are subject to change in the future.

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026		December 31, 2025	
Construction project	**Trade receivables for sale in lots**	**Advanced receipts for sale in lots[1]**	**Trade receivables for sale in lots**	**Advanced receipts for sale in lots[1]**
Suwon Hwaseo Prugio Briciel	₩ -	₩ 188	₩ -	₩ 125
ePyeonhansesang Daejeon Station Centum Vista	-	115	-	105
Elif Mia Station Complex 1	-	1,709	-	1,275
Elif Mia Station Complex 2	-	4,716	-	4,603
Sangbong Station Ubora First Live and Four Square	9,549	361	9,549	176
Goyang Ilsan Facilities for the Elderly and Child	-	4,200	-	4,200
Daegu Station Central Xi Commercial Complex	-	-	-	58
Total	₩ 9,549	₩ 11,289	₩ 9,549	₩ 10,542

[1] Excluding advance receipts 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 periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Salaries	₩ 150,103	₩ 130,912
Retirement and termination benefits	14,511	59,967
Employee welfare	24,589	19,548
Travel expenses	8,529	7,100
Communication cost	1,839	1,666
Utilities	4,231	4,233
Taxes and dues	4,583	3,864
Supplies	1,466	1,717
Rent	3,877	5,026
Depreciation	19,972	17,832
Amortization	5,668	6,581
Repairs and maintenance	4,417	1,871
Vehicles	1,915	1,850
Insurance	1,182	1,014
Commissions	97,156	90,633
Freight and custody	18,879	18,821
Conferences	1,579	1,410
Advertising	65,792	75,736
Education and training	2,456	2,863
Prizes and rewards	355	645
Cooperation	885	329
Research and development	15,579	13,232
Impairment loss on trade receivables	8,061	1,273
Total	₩ 457,624	₩ 468,123

18. Other Income and Expense

(a) Details of other income for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Gain on foreign currency transaction	₩ 12,385	₩ 7,814
Gain on foreign currency translation	182,289	64,780
Gain on valuation of derivatives	180	6,974
Reversal of impairment loss on other receivables	34	143
Gain on disposal of property, plant and equipment	4,887	313
Gain on disposal of intangible assets	-	4
Gain on disposal of equity-method investments	6	-
Gain on disposal of assets held for sale	3,768	-
Gain on lease contract adjustments	41	431
Gain on disposal of right-of-use assets	-	257
Miscellaneous income	4,037	4,220
Total	₩ 207,627	₩ 84,936

(b) Details of other expense for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Loss on foreign currency transaction	₩ 11,110	₩ 14,380
Loss on foreign currency translation	48,005	45,073
Loss on valuation of derivatives	35,145	8,906
Loss on impairment of other receivables	-	181
Loss on impairment of property, plant and equipment	6	-
Loss on disposal of property, plant and equipment	437	274
Loss on impairment of right-of-use assets	17	-
Loss on disposal of intangible assets	36	226
Loss on impairment of intangible assets	316	213
Loss on disposal of assets held for sale	1,445	-
Donations	1,154	887
Loss on lease contract adjustments	31	13
Miscellaneous loss	1,948	1,705
Total	₩ 99,650	₩ 71,858

19. Finance Income and Costs

Details of finance income and costs for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Finance income:		
Interest income[1]	₩ 26,225	₩ 28,188
Dividend income	2,010	2,821
Gain on valuation of financial assets at fair value through profit or loss	1,746	3,833
Gain on disposal of financial instruments	304	324
Total finance income	₩ 30,285	₩ 35,166
Finance costs:		
Interest expense	₩ 20,387	₩ 12,471
Loss on valuation of financial assets at fair value through profit or loss	1,631	4,074
Total finance costs	₩ 22,018	₩ 16,545
Net finance income	₩ 8,267	₩ 18,621

[1]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 three-month periods ended March 31, 2026 and 2025 are 25.53% and 22.89%, respectively.

(b) The Group is subject to Pillar Two income taxes. As of March 31, 2026, 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 March 31, 2026 and December 31, 2025 are as follows:

Type	Name of entity	Location	Percentage of ownership (%)	
			March 31, 2026	December 31, 2025
Associates	LitePharmTech Co., Ltd.[1]	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd.[1]	Korea	18.95	18.95
	KOCREF 41 REIT	Korea	26.47	26.47
	Cheongna Medipolis PFV Co.,Ltd.[2]	Korea	51.01	51.01
	INNODIS CO., Ltd.[1]	Korea	19.64	19.64
	SJ BIO MED Co., Ltd.[1,3]	Korea	14.39	14.39
	LSK Global Pharma Services Co., Ltd.	Korea	21.92	21.92
	Mirae Asset KT&G Investment Fund I[4]	Korea	50.00	50.00
	KB KT&G New Growth Fund 1[5]	Korea	66.67	66.67
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund[6]	Korea	51.35	51.35
	Starfield Suwon Inc.	Korea	50.00	50.00
	ASF International Holding Company AB[6,7]	Sweden	51.00	51.00
Others	Sangsang Loft Co.,Ltd.[8]	Korea	-	50.00

[1]The Group classified its interests in the entities as investment in associates, as the Group is deemed to have significant influence over such entities and has the right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage of less than 20%.

[2]The Group has classified its interests in the entities 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.

[3]As of March 31, 2026, the liquidation procedures are in progress.

[4]The Group classified its interest in the entity as investment in associates, as there are no arrangements that incur joint control among the partners, notwithstanding its consolidated ownership percentage of 50%.

[5]Although the ownership exceeds 50%, the Group classified the ownership as investment in associates as the Group does not have control over related activities and has significant influence through participating in investment decision-making authority.

[6]The Group classified its interest in the entity as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

[7] For the year ended December 31, 2025, the Group acquired all of the shares of ASF International Holding Company AB for ₩ 271,366 million, and, in accordance with the shareholders' agreement, the Group disposed of a portion of the shares to Altria Ventures Inc. (the "joint investor") for ₩ 107,091 million. Under the shareholders' agreement between the Group and the joint investor, the Group has the right to purchase the joint investor's shares from the point when four years have elapsed after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares in ASF International Holding Company AB to the Group from the point when five years have elapsed after the closing date. The Group added a financial liability of ₩160,560 million related to these rights to the acquisition cost of investments in joint ventures.

[8] For the three-month period ended March 31, 2026, upon completion of the liquidation registration, the entity was excluded from the scope of related parties.

21. Related Parties (cont'd)

(b) The Group carries out transactions with its related parties, such as sales of goods and provision of services, etc. Details of the transactions with the related parties for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2026		March 31, 2025	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	INNODIS CO., LTD.	₩ -	₩ -	₩ -	₩ 25
	Cheongna Medipolis PFV Co.,Ltd.	300	-	379	-
Joint ventures	Starfield Suwon, Inc.	-	28	-	27
Others	Sangsang Loft Co.,Ltd.[1]	1	-	1	-
	Others[2]	-	-	1,546	-
	Total	₩ 301	₩ 28	₩ 1,926	₩ 52

[1] For the three-month period ended March 31, 2026, upon completion of the liquidation registration, the entity was excluded from the scope of related parties.

[2]The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party as the Group acquired DNC Deogeun Co., Ltd. as subsidiary for the year ended December 31, 2023. The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

(c) Details of account balances of receivables and payables with the related parties as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2026		December 31, 2025	
		Receivables	Payables	Receivables	Payables
Associate	KORAMCO Banpo PFV Co., Ltd.	₩ 3,827	₩ -	₩ -	₩ -
	INNODIS CO., LTD.	-	-	-	25
	Cheongna Medipolis PFV Co.,Ltd.	-	-	113	-
Joint venture	Starfield Suwon, Inc.	37	10	37	10
Others	Sangsang Loft Co.,Ltd.[1]	-	-	-	2
	Total	₩ 3,864	₩ 10	₩ 150	₩ 37

[1] For the three-month period ended March 31, 2026, upon completion of the liquidation registration, the entity was excluded from the scope of related parties.

21. Related Parties (cont'd)

(d) Details of fund transactions with the related parties for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)

Type	Name of entity	March 31, 2026		March 31, 2025		
		Equity recovery	Dividends	Loan of funds	Loan recovery	Dividends
Associate	KORAMCO Banpo PFV Co., Ltd.	₩ -	₩ 3,790	₩ -	₩ -	₩ -
Joint venture	Starfield Suwon, Inc.	-	18,388	-	-	12,425
Others	Sangsang Loft Co.,Ltd.[1]	73	-	-	-	-
	Others[2]	-	-	4,702	1,217	-
		₩ 73	₩ 22,178	₩ 4,702	₩ 1,217	₩ 12,425

[1] For the three-month period ended March 31, 2026, upon completion of the liquidation registration, the entity was excluded from the scope of related parties.

[2] The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party as the Group acquired DNC Deogeun Co., Ltd. as subsidiary for the year ended December 31, 2023. The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

21. Related Parties (cont'd)

(e) 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 restricted for 5 years from the date Starfield Suwon Inc.'s provisional operation is approved. In the event that the Group or the joint investor wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

(f) The Group has entered into a contribution agreement in relation to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of March 31, 2026, 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.

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

(h) As of March 31, 2026, the Group has entered into a capital call agreement in relation to KORAMCO Europe Private REIT 3-2 Fund. The agreement may incur a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

(i) The Group has entered into a capital contribution agreement in relation 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 March 31, 2026, the remaining contribution amount is ₩ 4,000 million, and the detailed timeline for contribution is yet to be determined (See Note 23 (d)).

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

21. Related Parties (cont'd)

(k) For the year ended December 31, 2025, the Group established ASF International Holding Company AB ("ASF") with Altria Ventures Inc. (the "joint investor") with an investment ratio of 51:49. The disposal of such shares held by the Group and the joint investor is restricted for five years from the effective date of the share purchase agreement. After this restriction period, in the event that the Group or the joint investor intends to transfer its shares, the other party may choose to exercise the right of first refusal to purchase the shares, the drag-along right, or the tag-along rights. In addition, the Group has the right to purchase the joint investor's shares beginning four years after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares to the Group beginning five years after the closing date.
The Group added a financial liability of ₩ 160,560 million related to these rights to the acquisition cost of the investments in joint ventures. In addition, under the shareholders' agreement, if certain events occur that result in a loss to the joint investor, the Group is required to ensure that such loss is first covered using ASF's surplus available for dividends. In case the surplus available for dividends are insufficient to fully cover the loss, the Group is obligated to make monetary payment to the joint investor for the uncovered loss amount, for up to the agreed amount specified in the shareholders' agreement. As of March 31, 2026, such events have not occurred, and it is not possible to reasonably estimate whether such events will occur in the future or the amount thereof (see Note 23 (d)).

(l) Details of key management personnel compensation for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Long and short-term employee benefits	₩ 7,992	₩ 5,918
Retirement benefits	575	620
Share-based payments	938	505
Total	₩ 9,505	₩ 7,043

22. Risk Management and Fair Value of Financial Instruments

In relation to financial instruments, the Group is exposed to market risk, credit risk and liquidity risk. The purpose of risk management of the Group is to identify potential risks affecting the financial performance of the Group and to 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 Group's audit committee 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 that of the previous fiscal year.

(a) Market risk

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

① Foreign exchange 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 measures the risk of fluctuations in foreign exchange rates against the Korean won internally 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, which may be caused by the changes in market prices of listed stocks the Group invests in. The Group’s management regularly measures the risk that the fair values or future cash flows may fluctuate due to the changes in market prices of the listed stocks the Group invests in. Material investments in the Group’s portfolio are individually managed, for which acquisitions and disposals are required to be approved by the Group’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 borrowings, trade payables and other payables, bonds 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 March 31, 2026, 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 in which one of the contracting parties to the financial instrument may incur financial losses to the other party due to the failure of performing its obligations. To manage such credit risk, the Group's management only transacts with parties with 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 when entering into a contract and the information provided by the credit rating agency, which provides the basis for determining credit limits; the Group then receives collaterals and/or payment guarantees as necessary. In addition, the Group periodically reassesses the credit limits and readjusts the collaterals by reassessing the contracting party's creditworthiness, and for financial assets with delayed collection, their status and collection strategies are reported quarterly and appropriate measures are taken in accordance with the reasons for delay.

As of March 31, 2026 and December 31, 2025, the carrying amount of financial assets presents 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.

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

(d) Details of the carrying amounts of financial instruments by category as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026	December 31, 2025
Financial assets:		
Financial assets measured at fair value through profit or loss[1]	₩ 581,344	₩ 394,723
Financial assets measured at fair value through other comprehensive income or loss	134,383	187,911
Derivative assets	2,529	4,965
Financial assets measured at amortized cost		
Cash and cash equivalents[1]	1,101,406	913,503
Other financial assets	377,855	341,755
Trade and other receivables	2,041,708	1,850,994
Long-term deposits	1,744,961	1,676,086
Subtotal	5,265,930	4,782,338
Total financial assets	₩ 5,984,186	₩ 5,369,937
Financial liabilities:		
Derivative liabilities	₩ 23,485	₩ 8,540
Financial liabilities measured at amortized cost		
Short-term borrowings	225,344	332,978
Long-term borrowings	176,471	175,269
Bonds	1,261,010	1,237,092
Convertible bonds	31,982	40,639
Trade and other payables	1,943,949	1,350,168
Lease liabilities	56,666	57,209
Liabilities for non-controlling interests	6,285	6,469
Subtotal	3,701,707	3,199,824
Total financial liabilities	₩ 3,725,192	₩ 3,208,364

[1]As of March 31, 2026, money market trust amounting ₩ 1 million classified as cash equivalents are included in the financial assets measured at fair value through profit or loss (December 31, 2025: ₩ 1 million).

(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

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

Details of the fair value measurements classified by the fair value hierarchy as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)	March 31, 2026			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩ 581,344	₩ -	₩ 257,627	₩ 323,717
Financial assets measured at fair value through other comprehensive income or loss	134,383	126,216	-	8,167
Derivative assets	2,529	-	2,529	-
Total financial assets	₩ 718,256	₩ 126,216	₩ 260,156	₩ 331,884
Derivative liabilities	₩ 23,485	₩ -	₩ 23,485	₩ -

(in millions of Korean won)	December 31, 2025			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	₩ 394,723	₩ -	₩ 67,785	₩ 326,938
Financial assets measured at fair value through other comprehensive income or loss	187,911	179,744	-	8,167
Derivative assets	4,965	-	4,965	-
Total financial assets	₩ 587,599	₩ 179,744	₩ 72,750	₩ 335,105
Derivative liabilities	₩ 8,540	₩ -	₩ 8,540	₩ -

There was no movement between the levels of fair value hierarchy for the three-month period ended March 31, 2026 and the year ended December 31, 2025.

As of March 31, 2026 and December 31, 2025, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income) was measured using the adjusted net asset method and the discounted cash flow method and was classified as Level 3 fair value based on the inputs used in the valuation technique.

Changes in Level 3 fair value for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 335,105	₩ 360,809
Acquisition	5,943	13,514
Disposal	(8,965)	(697)
Changes in fair value	(199)	(2,766)
Ending balance	₩ 331,884	₩ 370,860

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

(f) Details of net gains or losses by each financial instrument category for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)

	March 31, 2026					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 26,225	₩ -	₩ 26,225
Dividend income	997	1,013	-	-	-	2,010
Loss on valuation	115	-	(34,965)	-	-	(34,850)
Gain on disposal	304	-	-	-	-	304
Interest expense	-	-	-	-	(20,387)	(20,387)
Impairment loss	-	-	-	(8,028)	-	(8,028)
Gain on lease contract adjustments	-	-	-	-	10	10
Total	₩ 1,416	₩ 1,013	₩ (34,965)	₩ 18,197	₩ (20,377)	₩ (34,716)
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ 12,139	₩ -	₩ -	₩ -	₩ 12,139

(in millions of Korean won)

	March 31, 2025					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 28,188	₩ -	₩ 28,188
Dividend income	818	2,003	-	-	-	2,821
Gain or loss on valuation	(241)	-	(1,932)	-	-	(2,173)
Gain on disposal	324	-	-	-	-	324
Interest expense	-	-	-	-	(12,471)	(12,471)
Reversal of impairment loss	-	-	-	(1,312)	-	(1,312)
Gain on lease contract adjustments	-	-	-	-	418	418
Total	₩ 901	₩ 2,003	₩ (1,932)	₩ 26,876	₩ (12,053)	₩ 15,795
Other comprehensive income(loss) before tax:						
Net change in fair value	₩ -	₩ (1,764)	₩ -	₩ -	₩ -	₩ (1,764)

23. Contingent Liabilities and Commitments

(a) Litigation cases

As of March 31, 2026, the Group has 21 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 158,621 million. It is not possible to reasonably estimate the impact of the outcome of the pending litigations on the consolidated financial statements of the Group as of March 31, 2026.

(b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of March 31, 2026 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	210,300	72,600
Derivatives trading[1]	Hana Bank and six others	USD	242,883	36,058
Trade receivables factoring agreement	Hana Bank	KRW	5,000	464
Insurance Contract for Compensation of Consumer Damages in Sponsored Door-to-Door Sales	Korea Special Sales Financial Cooperative Association	KRW	546	-
Others	Korea Development Bank and six others	KRW	1,050,680	409,430
	Hana Bank Shanghai branch	CNY	10,000	10,000

[1]Derivatives are composed of foreign exchange forward contracts and are held for trading as of March 31, 2026.

As of March 31, 2026, the Group has a short-term export credit insurance contract with Korea Trade Insurance Corporation (covered amount: USD 162,423 thousand, EUR 600 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Group as of March 31, 2026 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
Hana Bank	KRW	31,000	Payment guarantee for tobacco consumption tax
Korea Housing & Urban Guarantee Corporation	KRW	238,332	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	13,663	License guarantee, etc.
Unified Customs Guarantor JSC	RUB	3,000,000	Payment guarantee on customs
Ameria Bank	USD	500	Trade receivables payment guarantee
Garanti Bank and one other	TRY	520,000	Payment guarantee on customs, etc.
Hana Bank	USD	7,500	Performance and tender guarantee related to exporting reconstituted tobacco leaves
Mastern Investment Management	KRW	146	Borrowings payment guarantee
Sberbank PAO and two others	RUB	5,818,000	Trade receivables payment guarantee

23. Contingent Liabilities and Commitments (cont'd)

As of March 31, 2026, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand) for import clearance. The Group has a recourse liability up to the limit of TWD 700,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Group to other parties as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	March 31, 2026		December 31, 2025		Details of guarantee
		Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of ePyeonhansesang Daejeon Station Centum Vista	Hana Bank	8,000	5,004	8,000	3,019	Loan guarantee for the intermediate payment of off-plan sales construction[1]
Buyer of Digital Empire Pyeongchon Biz Valley	Hana Bank	69,960	32,731	66,960	30,544	Loan guarantee for the contract deposit and the intermediate payment of off-plan sales construction

[1]The limit amount of the loan guarantee for the intermediate payment of off-plan sales construction excludes the portion of guarantees provided by Korea Housing & Urban Guarantee Corporation (80%).

Details of assets pledged as collaterals as of March 31, 2026 are as follows:

(in millions of Korean won)

	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 81,193	₩ 47,500	₩ 75,600	Korea Development Bank and one other	Long term borrowings and limit loan
	20,287	25,500	39,000	Shinhan Bank and one other	Short-term borrowings
	27,868	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment property. etc.	201,232	16,986	19,212	BGF Retail Co.,Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	55,715	46,500	55,800	Mirae Asset Capital Co.,Ltd.	Current portion of long-term borrowings[1]
Other financial assets	100	100	100	Kyobo Book Center Co.,Ltd.	Establishment of a pledge for leasehold deposits
	37,880	45,829	37,880	Suwon City	Establishment of a pledge for suwon daeyupyeong district underpass
	600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Cash and cash equivalents	4,201	-	15,120	HHR Real Estate General Private Investment Company No.16	Payment restriction for the purpose of the sale of the Goyang Facilities for the Elderly and Child[2]
Financial assets measured at fair value through profit or loss	5,163	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Total	₩ 434,239	₩ 182,415	₩ 251,112		

[1] As of March 31, 2026, 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.

[2] Comprehensive collateral has been established over the account designated to receive the deposit and intermediate payment from the sale of Goyang Facilities for the Elderly and Child, covering the expected intermediate payment amount.

23. Contingent Liabilities and Commitments (cont'd)

Details of restricted financial assets as of March 31, 2026 and December 31, 2025 are as follows:

(in millions of Korean won)		March 31, 2026	December 31, 2025
Cash and cash equivalents	Payment restriction for the purpose of the sale of the Goyang Facilities for the Elderly and Child	₩ 4,201	₩ 4,201
Other financial assets	Establishment of a pledge for leasehold deposits	100	100
	Establishment of a pledge for suwon daeyupyeong district underpass	37,880	37,880
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	600
	Security deposits for checking accounts, etc.	4	4
	Payment guarantee on import customs	472	459
Financial assets at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	5,163	5,139
	Total	₩ 148,420	₩ 148,383

As of March 31, 2026, cash and cash equivalents and short-term financial instruments of ₩ 62,349 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 has not yet been incurred as of March 31, 2026 is ₩ 164,299 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 used for the state government's medical expenditures. Otherwise, the fund will be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩ 1,744,961 million in long-term deposits for MSA Escrow Fund as of March 31, 2026 (as of December 31, 2025: ₩ 1,676,086 million), and they consist of US Treasury bond, and demand deposits. For the year ended December 31, 2025, refund of the funds that have been deposited for 25 years from the date of deposit was initiated.

The Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of March 31, 2026, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 89,833 million and ₩ 55,327 million, respectively (as of December 31, 2025: ₩ 89,863 million and ₩ 33,674 million, respectively).

23. Contingent Liabilities and Commitments (cont'd)

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 investor wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

As of March 31, 2026, the Group has entered into currency hedge capital call agreement in relation 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 three-month period ended March 31, 2026 is ₩ 220 million.

The Group has entered into a capital contribution agreement in relation to the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1, and Smilegate New Deal Fund, etc., with the ceiling of ₩ 126,000 million and USD 37,000 thousand. As of March 31, 2026, the remaining contribution amount is ₩ 13,162 million and USD 11,683 thousand, and the detailed timeline for contribution is yet to be determined.

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

The Group has entered into a contribution agreement in relation to equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of March 31, 2026, 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, in the event of 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 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.

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

23. Contingent Liabilities and Commitments (cont'd)

As of March 31, 2026, 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 is obligated to return infrastructure such as roads and neighboring parks to Suwon City for free related to sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district were completed in September 2023, additional expected costs due to fulfilment of infrastructure-related obligations were reflected in construction costs for the years ended December 31, 2025 (see Note 16).

In connection with the Elif Mia Station Phases 1 and 2 housing sales project, the Group is obligated to sell certain portions of the residential facilities constructed by the Group to the Seoul Metropolitan Government at a reduced price and to contribute certain portions of the commercial facilities to the local government, and easements have been established with respect to certain portions of the roads.

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.

In connection with the ePyeonhansesang Daejeon Station Centum Vista sales project, the Group is obligated to donate the roads and the expanded school facilities to the Daejeon Metropolitan Government.

As of March 31, 2026, in relation to the ePyeonhansesang Daejeon Station Centum Vista sales project, the Group has agreed with the constructor (DL Construction Co., LTD.) to compensate for the debts incurred by the purchaser due to termination of the contract for reasons attributable to purchaser and failure to repay borrowings amounting to ₩ 5,666 million.

For the year ended December 31, 2022, in relation to the construction of residential and commercial complexes in Sangbong-dong, the Group has reached an agreement with Bando Engineering & Construction Co., Ltd. to resolve the dispute over increase in construction costs related to the permission for change through arbitration judgement ordered by Korea Commercial Arbitration Board. For the progress of the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in instalment according to the completion rate until the point of completion. The construction was completed during the year ended December 31, 2023 but the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of March 31, 2026.

For the three-month period ended March 31, 2026, the Parent Company signed a financial support letter for its subsidiaries, Tae-A Industrial Co., Ltd., KT&G USA Corporation, Cosmocos Co., Ltd. ,and KT&G Tutun Mamulleri Sanayi ve Ticaret A.S to provide operating funds, debt payment and other management-related business support.

23. Contingent Liabilities and Commitments (cont'd)

As of March 31, 2026, 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 March 31, 2026.

The subsidiary is engaged in manufacturing and selling tobacco in Russia. As of March 31, 2026, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of March 31, 2026.

The Group established ASF International Holding Company AB ("ASF") with Altria Ventures Inc. (the "joint investor") with an investment ratio of 51:49 during 2025. The disposal of such shares held by the Group and the joint investor is restricted for five years from the effective date of the share purchase agreement. After this restriction period, in the event that the Group or the joint investor intends to transfer its shares, the other party may choose to exercise the right of first refusal, the drag-along right, or the tag-along right. In addition, the Group has the right to purchase the joint investor's shares beginning four years after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares to the Group beginning five years after the closing date. The Group added a financial liability of ₩ 160,560 million related to these rights to the acquisition cost of investments in joint ventures. In addition, under the shareholders' agreement, if certain events occur that result in a loss to the joint investor, the Group is required to ensure that such loss is first covered using ASF's surplus available for dividends. In case the surplus available for dividends is insufficient to fully cover the loss, the Group is obligated to make monetary payment to the joint investor for the uncovered loss amount, for up to the agreed amount specified in the shareholders' agreement. As of March 31, 2026, no such event has occurred, and it is not possible to reasonably estimate whether such an event will occur in the future or the amount thereof.

24. Cash Flows

Details of cash generated from operations for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Profit for the period	₩ 378,240	₩ 257,929
Operating profit from continuing operations	378,559	260,181
Operating loss from discontinued operation	(319)	(2,252)
Adjustments:		
Employee welfare	2,256	2,288
Retirement benefits and termination benefits	14,194	40,668
Loss on valuation or obsolescence of inventories	11,598	448
Depreciation	70,437	60,799
Amortization	7,692	7,954
Impairment loss on trade and other receivables	8,008	1,312
Loss on foreign currency translation	48,005	45,073
Loss on valuation of derivatives	35,145	8,906
Loss on disposal of property, plant and equipment	437	274
Loss on impairment of property, plant and equipment	6	-
Loss on disposal of intangible assets	36	226
Loss on impairment of intangible assets	316	213
Loss on impairment of right-of-use assets	17	-
Loss on disposal of assets held for sale	1,445	-
Other expenses, etc	3,021	5,040
Finance cost	22,018	16,545
Share based payment expense	1,009	895
Income tax expense	129,755	77,242
Gain on foreign currency translation	(182,289)	(64,780)
Gain on valuation of derivatives	(180)	(6,974)
Gain on disposal of property, plant and equipment	(4,887)	(313)
Gain on disposal of intangible assets	-	(4)
Gain on disposal of right-of-use assets	-	(257)
Gain on disposal of assets held for sale	(3,768)	-
Gain on disposal Investments in associates and joint ventures	(6)	-
Other income, etc.	(3,236)	(4,193)
Finance income	(30,374)	(35,242)
Increase of investments in associates and joint ventures due to share of net gain/loss	(17,912)	(7,353)
Changes in working capital:		
Decrease (increase) in trade and other receivables	(135,085)	116,056
Decrease (increase) in derivatives assets (liabilities)	(17,584)	(22,615)
Decrease in inventories	94,285	8,083
Decrease (increase) in accrued tobacco excise taxes and others	42,798	(48,682)
Increase in advance payments	(17,727)	(116,887)
Decrease (increase) in prepaid expenses	27,515	(14,375)
Decrease in trade and other payables	(65,563)	(155,221)
Increase in advance receipts	60,319	32,031
Increase (decrease) in tobacco excise tax payables and others	19,423	(11,473)
Increase (decrease) in provision for site restoration	(2)	22
Decrease in provision for litigation	(16,174)	-
Decrease (Increase) in net defined benefit assets (liabilities)	2,693	(6,707)
Cash generated from operations	₩ 485,881	₩ 186,928

25. Assets Held for Sale and Discontinued Operations

(a) Changes in assets held for sale for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Beginning balance	₩ 41,298	₩ -
Disposal	(7,676)	-
Ending balance	₩ 33,622	₩ -

(b) 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.

① Details of profit or loss from discontinued operation for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025[1]
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(832)	(1,948)
Operating loss	(832)	(1,948)
Other income	424	2
Other expense	-	(382)
Finance income	89	76
Finance costs	-	-
Loss on discontinued operation, before tax	(319)	(2,252)
Income tax expense	-	-
Loss on discontinued operation, after tax	(319)	(2,252)
Exchange differences on translating foreign operations	257	(33)
Total comprehensive loss on discontinued operation	₩ (62)	₩ (2,285)

[1] Profits or losses from discontinued operations for the three-month period ended March 31, 2025 are presented after eliminating the effects of intra-group transactions.

Profit or loss from discontinued operations for each of the three-month periods ended March 31, 2026 and 2025 is entirely attributed to the Parent Company.

25. Assets Held for Sale and Discontinued Operations (cont'd)

② Details of cash flows from discontinued operation for each of the three-month periods ended March 31, 2026 and 2025 are as follows:

(in millions of Korean won)	March 31, 2026	March 31, 2025
Cash flows generated from operating activities	₩ (253)	₩ (1,939)
Cash flows generated from investing activities	(14,123)	76
Cash flows generated from financing activities	(284)	(267)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	348	(42)
Total cash flows	₩ (14,312)	₩ (2,172)

26. Events After the Reporting Period

On April 23, 2026, the Parent Company has retired 10,866,189 treasury shares in accordance with the resolution of the Board of Directors on April 16, 2026.

Sangsang Stay Co., Ltd., a subsidiary of the Parent Company, reduced its capital by canceling 11,840,000 common shares through a share consolidation, pursuant to a resolution of its board of directors on April 7, 2026. In addition, pursuant to a resolution of the Parent Company's board of directors on May 7, 2026, the Parent Company plans to make an in-kind contribution of its land and buildings to Sangsang Stay Co., Ltd.

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Independent auditor's report

(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors
KT&G Corporation

Opinion

We have audited the consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2025 and 2024, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2025, and the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2025 in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

We have audited the Group's internal control over financial reporting ("ICFR") as of December 31, 2025 based on the *Conceptual Framework for Design and Operation of ICFR* established by the Operating Committee of ICFR in Korea, in accordance with Korean Standards on Auditing ("KSA"), and our report dated March 4, 2026, expressed an unqualified opinion thereon.

Basis for opinion

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

Key audit matters

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

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Revenue recognition for exported tobacco

The revenue from exported tobacco for the year ended December 31, 2025, amounts to ₩ 1,116,098 million, accounting for 17% of the total revenue of the Group. As described in Note 2 to the consolidated financial statements, the Group recognizes revenue from exported tobacco at a point in time when the control over the goods is transferred to the buyer, the transaction amount and related costs can be reliably measured, and the inflow of economic benefits is probable.

Revenue from the exported tobacco is a significant factor affecting the evaluation of the Group's management performance and financial performance. In addition, key judgment factors for revenue from the exported tobacco include the determination of the consideration to which the Group expects to be entitled for each contract arising from complex contract structures and various transaction forms, the assessment of the point in time at which the control is transferred, and the appropriateness of evaluation for the timing and amount of revenue recognition. Furthermore, due to the characteristics of the overseas tobacco business, such as dependency on specific customers, management is more likely to make material judgments related to revenue recognition. These factors increase the risk of misstatements in the revenue recognition process.

Therefore, we have identified the occurrence of revenue related to the overseas tobacco business as a significant risk, and we have determined that significant attention by auditors is required for the recognition of revenue from the exported tobacco. As a result, we have selected this as a key audit matter for the current period.

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

- Assess the compliance of the Group's accounting policies with the standards on revenue in relation to the revenue from the exported tobacco.
- Assess the effectiveness of the design and operation of the internal controls by obtaining an understanding of the internal controls related to the revenue from the exported tobacco.
- Inquire about the reasons for increases or decreases in revenue from the exported tobacco by type, market and item.
- Review the contracts with major customers for revenue from the exported tobacco and assess the appropriateness of point in time when control is transferred and accounting for gross/net amounts according to the standards on revenue.
- Corroborate the occurrence of revenue and assess the appropriateness thereof in relation to the exported tobacco by examining documents, such as export documents, for selected samples.
- Assess the appropriateness of timing for recognizing revenue from the exported tobacco transactions occurring before and after the end of the reporting period by examining documents for selected samples.
- Review the occurrence of revenue from the exported tobacco by analyzing the correlation between revenue, trade receivables, and cash using data analysis techniques.

- Perform independent confirmation procedures for trade receivables with major customers of the exported tobacco by sending and collecting confirmation letters.
- Assess the possibility of overstatement of revenue from the exported tobacco by examining for the occurrence of irregular sales discounts and rebates.
- Review the contracts for royalty sales and perform recalculations.

Revenue recognition for ginseng business

The revenue from ginseng business for the year ended December 31, 2025, amounts to ₩ 918,206 million, accounting for 14% of the total revenue of the Group. As described in Note 2 to the consolidated financial statements, the Group recognizes revenue from ginseng business at a point in time when the control over the goods is transferred to the buyer, the transaction amount and related costs can be reliably measured, and the inflow of economic benefits is probable.

Revenue from ginseng business is a significant factor affecting the evaluation of the Group's management performance and financial performance. In addition, key judgment factors for revenue from ginseng business include the determination of consideration for each contract arising from various distribution channels and transaction terms, estimation of variable consideration such as sales incentives, the assessment of the point in time at which the control is transferred, and the assessment for the appropriateness of the timing and amount of revenue recognition.

Furthermore, due to the characteristics of the ginseng business, such as business structure with sales concentrated in specific seasons, different transaction terms for each channel and contract structures of an Original Equipment Manufacturer (OEM) model, management is more likely to make material judgments related to revenue recognition. These factors increase the risk of misstatements in the revenue recognition process.

Therefore, we have identified the occurrence of revenue related to the ginseng business as a significant risk, and we have determined that significant attention by auditors is required for the recognition of revenue from ginseng business. As a result, we have selected this as a key audit matter for the current period.

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

- Assess the compliance of the Group's accounting policies with the standards on revenue in relation to the revenue from ginseng business.
- Assess the effectiveness of the design and operation of controls in relation to the internal controls of the Group by obtaining an understanding of its internal controls on the revenue from ginseng business.
- Inquire about the reasons for increases or decreases in revenue from ginseng business by channel.
- Assess the appropriateness of the point in time control is transferred and the accounting for gross/net amounts based on the standards on revenue by reviewing the contracts with major customers for ginseng business.
- Corroborate the occurrence of revenue and assess the appropriateness of timing of revenue recognition in relation to the ginseng business by examining documents for selected samples.

- Assess the appropriateness of timing for recognizing revenue from the ginseng business transactions occurring before and after the end of the reporting period by examining documents for selected samples.
- Review the occurrence of revenue from the ginseng business by analyzing the correlation between revenue, trade receivables, and cash using data analysis techniques.
- Perform independent confirmation procedures for trade receivables with major customers by sending and collecting confirmation letters.
- Assess the possibility of overstatement of revenue from ginseng business by examining for the occurrence of irregular sales discounts and rebates.
- Analyze irregular transaction types by scenario by engaging fraud risk experts for major revenue channels.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tae-hwan Kim.

Ernst & Young Han Young

March 4, 2026

This audit report is effective as of March 4, 2026, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

KT&G Corporation and its Subsidiaries

Consolidated financial statements

for each of the two years in the period ended December 31, 2025

"The accompanying 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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Phone: 080-931-0399

KT&G Corporation and its subsidiaries

Consolidated statements of financial position

As of December 31, 2025 and 2024

(in millions of Korean won)	Notes	December 31, 2025	December 31, 2024
Assets			
Current assets			
Cash and cash equivalents	5, 29, 30	₩ 913,503	₩ 1,135,968
Current other financial assets	5, 29, 30	303,277	463,317
Current financial assets measured at fair value through profit or loss	6, 29, 30	61,431	244,941
Trade and other receivables	7, 22, 28, 29	1,691,394	1,561,652
Derivative assets	29, 30	4,965	-
Inventories	8	3,284,784	3,101,313
Refund assets and others	18	792	6,161
Accrued tobacco excise and other taxes		490,835	404,017
Advance payments	30	70,515	124,642
Prepaid expenses		163,051	131,094
Current income tax assets	26	398	3,205
Assets held for sale	4, 33	41,298	-
Total current assets		7,026,243	7,176,310
Non-current assets			
Long-term other financial assets	5, 29, 30	38,478	30,704
Long-term deposits in MSA Escrow Fund	29, 30	1,676,086	1,705,504
Long-term financial assets measured at fair value through profit or loss	6, 29	333,291	337,928
Long-term trade and other receivables	7, 28, 29	159,600	141,573
Long-term financial assets measured at fair value through other comprehensive income or loss	6, 29	187,911	211,693
Investments in associates and joint ventures	4, 9, 28, 30	813,934	482,349
Property, plant and equipment	4, 10, 30	2,822,977	2,664,382
Intangible assets	4, 11	170,875	179,681
Investment properties	4, 12, 30	665,021	761,154
Right-of-use assets	4, 13	62,068	50,498
Long-term advance payments	30	89,959	100,700
Long-term prepaid expenses		23,056	13,348
Deferred income tax assets	26	79,435	61,390
Net defined benefit assets	17	40,193	8,023
Total non-current assets		7,162,884	6,748,927
Total assets		₩ 14,189,127	₩ 13,925,237
Liabilities			
Current liabilities			
Short-term borrowings	14, 29, 30, 31	₩ 332,978	₩ 287,975
Current portion of long-term borrowings	14, 29, 30, 31	68,864	36,191
Current portion of bonds	15, 29, 31	329,742	99,895
Current portion of convertible bonds	15, 29, 31	23,728	27,388
Trade and other payables	16, 28, 29	1,563,861	1,680,023
Current lease liabilities	29, 31	25,419	20,881
Derivative liabilities	29, 30	8,540	32,801
Advance receipts	22	31,870	65,312
Current refund liabilities and provisions	18	45,096	39,080
Current income tax liabilities	26	218,967	197,831
Tobacco excise and other taxes payables		587,772	655,511
Total current liabilities		3,236,837	3,142,888
Non-current liabilities			
Long-term borrowings	14, 29, 30, 31	106,405	213,968
Long-term bonds	15, 29, 31	907,350	808,039
Long-term convertible bonds	15, 29, 31	16,911	-
Long-term trade and other payables	16, 17, 28, 29	273,347	81,836
Long-term lease liabilities	29, 31	31,790	27,865
Long-term advance receipts	22	2,758	9,385
Net defined benefit liabilities	17	42,659	42,575
Long-term refund liabilities and provisions	18	7,857	7,623
Deferred income tax liabilities	26	220,575	225,521
Non-controlling interests liabilities	29, 32	6,469	7,072
Total non-current liabilities		1,616,121	1,423,884
Total liabilities		₩ 4,852,958	₩ 4,566,772

KT&G Corporation and its subsidiaries

Consolidated statements of financial position, continued

As of December 31, 2025 and 2024

(in millions of Korean won)	Notes	December 31, 2025	December 31, 2024
Equity			
Share capital	19	₩ 954,959	₩ 954,959
Other capital surplus	19	7,889	5,944
Treasury shares	20	(835,255)	(1,030,541)
Gain on disposal of treasury shares	20	529,633	529,029
Reserves	19	6,898,937	7,175,263
Retained earnings	21	1,723,397	1,604,517
Equity attributable to owners of the Parent Company		9,279,560	9,239,171
Non-controlling interest	32	56,609	119,294
Total equity		₩ 9,336,169	₩ 9,358,465
Total liabilities and equity		₩ 14,189,127	₩ 13,925,237

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

KT&G Corporation and its subsidiaries

Consolidated statements of comprehensive income

For each of the two years in the period ended December 31, 2025

(in millions of Korean won)	Notes	2025	2024
Continuing operations			
Sales	4, 22, 28	₩ 6,579,707	₩ 5,908,792
Cost of sales	23, 28	(3,435,312)	(3,006,768)
Gross profit		3,144,395	2,902,024
Selling, general and administrative expense	23, 28	(1,800,729)	(1,713,210)
Operating profit		1,343,666	1,188,814
Other income	24, 28	467,036	573,737
Other expense	24, 28	(448,573)	(268,264)
Finance income	25, 29	147,735	165,266
Finance costs	25, 29	(110,236)	(91,635)
Share of net profit of associates and joint ventures	9	39,286	19,232
Gain (loss) arising from net monetary assets		16,377	(21,325)
Profit before income tax		1,455,291	1,565,825
Income tax expense	26	(352,210)	(393,689)
Profit from continuing operations		1,103,081	1,172,136
Discontinued operations			
Loss from discontinued operations	33	(765)	(7,137)
Profit for the year		₩ 1,102,316	₩ 1,164,999
Other comprehensive income for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	17	₩ 8,088	₩ (35,596)
Gain on valuation of fair value through other comprehensive income or loss	6, 29	79,571	9,753
Capital changes in equity method	9	(3)	(90)
Items that will be reclassified to profit or loss			
Exchange differences on translating foreign operations		22,278	56,847
Capital changes in equity method	9	(713)	(415)
		109,221	30,499
Total comprehensive income for the year		₩ 1,211,537	₩ 1,195,498
Profit for the year is attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 1,090,837	₩ 1,172,864
Loss from discontinued operations	33	(765)	(7,137)
Profit attributable to owners of the Parent Company		1,090,072	1,165,727
Non-controlling interests			
Profit (loss) from continuing operations		12,244	(728)
Profit (loss) from discontinued operations	33	-	-
Profit (loss) attributable to non-controlling interests		12,244	(728)
Total		₩ 1,102,316	₩ 1,164,999
Total comprehensive income for the year attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 1,200,790	₩ 1,205,970
Loss from discontinued operations	33	(898)	(9,236)
Total comprehensive income attributable to owners of the Parent Company		1,199,892	1,196,734
Non-controlling interests			
Profit (loss) from continuing operations		11,645	(1,236)
Profit (loss) from discontinued operations	33	-	-
Total comprehensive income (loss) attributable to non-controlling interests		11,645	(1,236)
Total		₩ 1,211,537	₩ 1,195,498
Basic earnings (loss) per share			
Basic and diluted	27		
From continuing operations		₩ 10,228	₩ 10,519
From discontinued operations		(8)	(64)
		₩ 10,220	₩ 10,455

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

KT&G Corporation and its subsidiaries

Consolidated statements of changes in equity

For each of the two years in the period ended December 31, 2025

(in millions of Korean won)	Share capital	Other capital surplus	Treasury shares	Gain on disposal of treasury shares	Reserves	Retained earnings	Owners of the Parent	Non-controlling interest	Total
Balance as of January 1, 2024	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,300	₩ 1,692,239	₩ 9,174,405	₩ 120,530	₩ 9,294,935
Total comprehensive income (loss) for the year									
Profit(loss) for the year	-	-	-	-	-	1,165,727	1,165,727	(728)	1,164,999
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(35,084)	(35,084)	(512)	(35,596)
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	9,753	-	9,753	-	9,753
Transfer from gain (loss) on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(12,988)	12,988	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	56,843	-	56,843	4	56,847
Capital changes in equity method	-	-	-	-	(505)	-	(505)	-	(505)
Subtotal other comprehensive income (loss) for the period	-	-	-	-	53,103	(22,096)	31,007	(508)	30,499
Total comprehensive income (loss) for the year	-	-	-	-	53,103	1,143,631	1,196,734	(1,236)	1,195,498
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(586,620)	(586,620)	-	(586,620)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-	-	-
Acquisition of treasury shares	-	-	(546,841)	-	-	-	(546,841)	-	(546,841)
Retirement of treasury shares	-	-	752,873	-	-	(752,873)	-	-	-
Share-based payment	-	998	360	135	-	-	1,493	-	1,493
Total transactions with owners of the Company	-	998	206,392	135	(108,140)	(1,231,353)	(1,131,968)	-	(1,131,968)
Balance as of December 31, 2024	₩ 954,959	₩ 5,944	₩ (1,030,541)	₩ 529,029	₩ 7,175,263	₩ 1,604,517	₩ 9,239,171	₩ 119,294	₩ 9,358,465
Balance as of January 1, 2025	₩ 954,959	₩ 5,944	₩ (1,030,541)	₩ 529,029	₩ 7,175,263	₩ 1,604,517	₩ 9,239,171	₩ 119,294	₩ 9,358,465
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	1,090,072	1,090,072	12,244	1,102,316
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	8,687	8,687	(599)	8,088
Gain on valuation of fair value through other comprehensive income or loss	-	-	-	-	79,571	-	79,571	-	79,571
Transfer from gain (loss) on disposal of fair value through other comprehensive income or loss to retained earnings	-	-	-	-	(27,302)	27,302	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	22,278	-	22,278	-	22,278
Capital changes in equity method	-	-	-	-	(716)	-	(716)	-	(716)
Subtotal other comprehensive income (loss) for the period	-	-	-	-	73,831	35,989	109,820	(599)	109,221
Total comprehensive income for the year	-	-	-	-	73,831	1,126,061	1,199,892	11,645	1,211,537
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(602,968)	(602,968)	-	(602,968)
Transfer from other reserve	-	-	-	-	(350,157)	350,157	-	-	-
Acquisition of treasury shares	-	-	(560,112)	-	-	-	(560,112)	-	(560,112)
Retirement of treasury shares	-	-	754,370	-	-	(754,370)	-	-	-
Changes in scope of consolidation	-	-	-	-	-	-	-	(75,298)	(75,298)
Changes in non-controlling interest	-	1,345	-	-	-	-	1,345	968	2,313
Share-based payment	-	600	1,028	604	-	-	2,232	-	2,232
Total transactions with owners of the Company	-	1,945	195,286	604	(350,157)	(1,007,181)	(1,159,503)	(74,330)	(1,233,833)
Balance as of December 31, 2025	₩ 954,959	₩ 7,889	₩ (835,255)	₩ 529,633	₩ 6,898,937	₩ 1,723,397	₩ 9,279,560	₩ 56,609	₩ 9,336,169

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

KT&G Corporation and its subsidiaries

Consolidated statements of cash flows

For each of the two years in the period ended December 31, 2025

(in millions of Korean won)	Notes	2025	2024
Cash flows from operating activities		₩ 582,875	₩ 822,275
Cash generated from operations	31	969,134	1,148,663
Income taxes paid		(386,259)	(326,388)
Cash flows from investing activities		101,054	(529,726)
Interest received		85,291	81,367
Dividends received		33,407	22,200
Decrease in other financial assets		443,146	387,825
Decrease in current financial assets measured at fair value through profit or loss		234,831	135,420
Decrease in long-term financial assets measured at fair value through profit or loss		21,786	27,361
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		132,052	35,725
Decrease in long-term deposits in MSA Escrow Fund		133	-
Disposal of property, plant and equipment		263,641	21,388
Disposal of intangible assets		3,654	1,991
Disposal of investment properties		9,538	22,029
Disposal of assets held for sale		144,921	137,169
Disposal of investments in associates and joint ventures		107,091	25,982
Disposal of investments in subsidiaries		34,877	-
Receipt of government grant		1,200	-
Collection of loans		32,838	26,742
Collection of guarantee deposits		8,367	4,791
Increase in other financial assets		(328,662)	(502,494)
Increase in current financial assets measured at fair value through profit or loss		(55,895)	(37,224)
Increase in long-term financial assets measured at fair value through profit or loss		(28,513)	(39,469)
Increase in long-term deposits in MSA Escrow Fund		-	(68)
Acquisition of property, plant and equipment		(639,535)	(767,537)
Acquisition of intangible assets		(34,946)	(29,656)
Acquisition of investment properties		(1,397)	(11,517)
Acquisition of right-of-use assets		(5,843)	(3,149)
Acquisition of investments in associates and joint ventures		(279,367)	(21,742)
Increase in loans		(63,144)	(34,342)
Increase in guarantee deposits		(7,594)	(6,263)
Net cash outflows due to changes in scope of consolidation		(10,823)	(6,255)
Cash flows from financing activities		(947,893)	(293,438)
Dividends paid		(603,832)	(586,620)
Interest paid		(73,158)	(43,369)
Repayment of lease liabilities		(26,587)	(24,342)
Acquisition of treasury shares		(560,112)	(546,841)
Repayment of borrowings		(3,238,689)	(1,427,658)
Proceeds from borrowings		3,217,030	1,727,223
Proceeds from issuance of bond		445,260	608,069
Repayment of bond		(107,805)	-
Increase in non-controlling interest liabilities		-	100
Net decrease in cash and cash equivalents		(263,964)	(889)
Cash and cash equivalents at the beginning of the year		1,135,968	1,031,953
Effect of exchange rate fluctuation on cash and cash equivalents		41,499	104,904
Cash and cash equivalents at the end of the year		₩ 913,503	₩ 1,135,968

"The accompanying notes are an integral part of the 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 December 31, 2025, the Parent Company has four manufacturing plants, including the Daejeon plant, and 11 local headquarters and 88 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/Sejong 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 31, 2001 and October 17, 2002, respectively (each GDR represents the right to receive one-half ordinary share of the Parent Company). Then on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

1.1 Overview of the Parent Company (cont'd)

The Parent Company's major shareholders as of December 31, 2025 are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
Industrial Bank of Korea	9,510,485	8.06
National Pension Service	9,133,543	7.74
Employee Share Ownership Association	5,120,228	4.34
Treasury shares	14,189,001	12.03
Others	80,023,388	67.83
	117,976,645	100.00

1.2 Consolidated Subsidiaries

Details of the Group's consolidated subsidiaries as of December 31, 2025 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%)[1]	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	December 31, 2025	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	December 31, 2025	Korea
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	December 31, 2025	Korea
	Tae.A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	December 31, 2025	Korea
	SangSang Stay Inc.	Hotel	100.00	December 31, 2025	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	December 31, 2025	Singapore
	PT Trisakti Purwosari Makmur	Manufacturing and selling tobaccos	99.99	December 31, 2025	Indonesia
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	100.00	December 31, 2025	Turkiye
	KT&G Pars	Manufacturing and selling tobaccos	99.99	December 31, 2025	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	December 31, 2025	Russia
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	December 31, 2025	Kazakhstan
	KT&G USA Corporation	Selling tobaccos	100.00	December 31, 2025	USA
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	December 31, 2025	Russia
	KT&G Taiwan Corporation	Selling tobaccos	100.00	December 31, 2025	Taiwan
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	December 31, 2025	Kazakhstan
	KT&G Global TAS FE LLC	Selling tobaccos	100.00	December 31, 2025	Uzbekistan
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	December 31, 2025	Brazil
	Gwacheon SangSang PFV Inc.	Real estate development and sales business	51.00	December 31, 2025	Korea
	Mastern No. 144 PFV Co., Ltd.	Real estate development and sales business	92.50	December 31, 2025	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	December 31, 2025	Korea
	Cheogna Medipolis Development Co., Ltd.	Real estate service business	66.67	December 31, 2025	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	December 31, 2025	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	December 31, 2025	Korea
	CENTRAL PHARM INC.	Selling health functional food	50.01	December 31, 2025	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	December 31, 2025	China
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	December 31, 2025	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	December 31, 2025	Japan
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	December 31, 2025	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	December 31, 2025	USA
CENTRAL PHARM INC.	Pacific 365, Inc	Selling health functional food	50.01	December 31, 2025	USA
Cosmocos Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	December 31, 2025	China
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	December 31, 2025	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Manufacturing and selling tobaccos	99.99	December 31, 2025	Indonesia

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

1.2 Consolidated Subsidiaries (cont'd)

For the year ended December 31, 2025, the Parent Company acquired additional equity securities of PT Trisakti Purwosari Makmur held by Renzoluc Pte., Ltd. at ₩ 165,116 million.

For the year ended December 31, 2025, the Parent Company additionally acquired equity securities of ₩ 39,595 million in KT&G Kazakhstan LLP through issuance of new stocks.

For the year ended December 31, 2025, the Parent Company sold all of its equity securities of ₩ 35,552 million in DNC Deogeun Co., Ltd.

For the year ended December 31, 2025, the Parent Company acquired ₩ 27,753 million of KT&G Global TAS FE LLC through investment establishment.

For the year ended December 31, 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.

For the year ended December 31, 2024, the Parent Company acquired 272,490,615 shares (₩ 59,692 million) of KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. and additional equity securities of ₩ 137,913 million of KT&G Kazakhstan LLP through issuance of new stocks.

For the year ended December 31, 2024, the Parent Company acquired 40,000 shares (₩ 200 million) of Cheongna Medipolis Development Co., Ltd through investment establishment.

For the year ended December 31, 2024, Korea Ginseng Corporation, a subsidiary of the Parent Company, acquired 22,501 shares (₩ 9,000 million) of CENTRAL PHARM INC., through a business combination, and Pacific 365, Inc., a subsidiary of CENTRAL PHARM INC., has been included in the Group's scope of consolidation.

1.3 Summarized Financial Information

Details of summarized financial information[1] on consolidated subsidiaries as of and for the year ended December 31, 2025 are as follows:

(in millions of Korean won)

	2025				
	Total assets	Total liabilities	Revenue	Profit (loss) for year	Total comprehensive income (loss)
Korea Ginseng Corporation	₩ 2,595,085	₩ 227,901	₩ 1,030,075	₩ 73,558	₩ 81,335
Yungjin Pharm. Co., Ltd.	262,385	170,925	254,256	(228)	(1,472)
Tae.A Industrial Co., Ltd.	93,026	26,441	41,681	(15,267)	(14,964)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	241,691	104,653	110,545	701	25,421
Korea Tabacos do Brasil Ltda.	3,508	329	383	334	604
KT&G Pars	6	53,292	-	-	-
KT&G Rus L.L.C.	368,241	281,382	133,634	(17,821)	8,989
KT&G USA Corporation	15,546	6,803	-	(765)	(898)
Cosmocos Co., Ltd.	57,248	32,207	110,256	6,782	6,276
Renzoluc Pte., Ltd.	175,435	41,417	831	33,603	37,215
SangSang Stay Inc.	47,832	767	34,838	6,955	6,955
KT&G Global Rus L.L.C.	282,150	270,938	110,206	(2,847)	735
Gwacheon SangSang PFV Inc.	19,923	12,095	-	(1,294)	(1,294)
KT&G Taiwan Corporation	52,087	27,660	56,367	9,207	9,556
Mastern No. 144 PFV Co., Ltd.	62,651	49,714	3,041	(811)	(811)
KT&G Global Kazakhstan LLP	87,874	40,073	116,868	17,970	19,434
KT&G Kazakhstan LLP	237,730	21,741	63,406	1,914	3,701
KT&G Global TAS FE LLC	40,032	11,660	12,578	(1,127)	619
Edn the pine central Seocho Co., Ltd.	62,564	6,101	179,030	28,009	28,009
Cheogna Medipolis Development Co., Ltd.	718	385	1,392	1	1
PT Trisakti Purwosari Makmur	1,289,052	952,388	727,185	96,134	82,359
PT Nusantara Indah Makmur	14	-	-	(69)	(74)
PT TSPM FLAVOR AND FRAGRANCE	78,089	4,004	3,804	(2,035)	(5,100)
KGCyebon Corporation	53,301	4,027	18,154	946	963
KGC Life & Gin Co., Ltd.	5,914	1,499	9,666	(2,306)	(2,326)
CENTRAL PHARM INC.	5,409	8,085	8,695	(4,741)	(4,733)
Jilin Hanzheng Ginseng Co., Ltd.	66,660	4,146	22,588	(1,594)	(555)
Cheong Kwan Jang Taiwan Corporation	20,721	5,475	14,625	(1,958)	(1,556)
Korean Red Ginseng Corp., Inc.	26,769	9,633	39,651	249	(162)
Korea Ginseng (China) Corp.	84,261	58,075	120,342	990	1,454
Korea Ginseng Corp. Japan	12,568	9,104	19,923	334	264
Pacific 365, Inc	247	1,520	270	(177)	(152)
K&I China Co., Ltd.	43	-	-	4	5

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

1.3 Summarized Financial Information (cont'd)

Details of summarized financial information[1] on consolidated subsidiaries as of and for the year ended December 31, 2024 are as follows:

(in millions of Korean won)	2024				
	Total assets	Total liabilities	Revenue	Profit (loss) for year	Total comprehensive income (loss)
Korea Ginseng Corporation	₩ 2,588,268	₩ 252,519	₩ 1,105,195	₩ 66,009	₩ 38,461
Yungjin Pharm. Co., Ltd.	234,258	144,455	252,040	1,233	171
Tae.A Industrial Co., Ltd.	109,874	28,325	39,629	(34,529)	(35,431)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	208,008	78,256	46,180	(16,594)	(66,400)
Korea Tabacos do Brasil Ltda.	2,871	296	484	185	(107)
KT&G Pars	6	53,292	-	-	-
KT&G Rus L.L.C.	236,547	158,677	103,705	7,820	294
KT&G USA Corporation[2]	17,731	8,192	-	(7,137)	(9,236)
Cosmocos Co., Ltd.	49,866	31,102	94,231	4,699	4,207
Renzoluc Pte., Ltd.	138,906	42,104	293	(878)	(3,664)
SangSang Stay Inc.	77,181	37,071	32,736	4,200	4,060
KT&G Global Rus L.L.C.	183,508	173,031	73,639	2,431	1,402
Gwacheon SangSang PFV Inc.	22,794	13,671	-	(1,379)	(1,379)
KT&G Taiwan Corporation	32,309	17,438	30,039	3,212	4,113
Mastern No. 144 PFV Co., Ltd.	62,132	48,384	2,979	(23,134)	(23,134)
KT&G Global Kazakhstan LLP	69,319	40,952	73,996	10,752	10,088
KT&G Kazakhstan LLP	232,065	62,610	-	685	(3,217)
KT&G Global TAS FE LLC	122,897	13,454	4,246	2,542	2,542
Edn the pine central Seocho Co., Ltd.	115,618	87,164	-	(8,819)	(8,819)
Cheogna Medipolis Development Co., Ltd.	742	409	633	39	39
PT Trisakti Purwosari Makmur	939,748	685,442	504,425	55,800	73,950
PT Nusantara Indah Makmur	88	-	-	(1)	6
PT TSPM FLAVOR AND FRAGRANCE	42,736	7	-	143	2,191
KGCyebon Corporation	52,331	4,019	18,828	877	663
KGC Life & Gin Co., Ltd.	23,657	1,913	17,875	(1,305)	(1,293)
CENTRAL PHARM INC.	7,080	5,024	-	-	-
Jilin Hanzheng Ginseng Co., Ltd.	65,873	2,859	30,517	2,270	8,564
Cheong Kwan Jang Taiwan Corporation	24,065	7,263	33,023	474	1,530
Korean Red Ginseng Corp., Inc.	31,949	14,651	44,094	1,038	3,106
Korea Ginseng (China) Corp.	89,439	64,706	187,890	8,219	10,367
Korea Ginseng Corp. Japan	13,473	10,273	18,600	394	486
Pacific 365, Inc	281	1,401	-	-	(104)
K&I China Co., Ltd.	101	63	-	(191)	(456)

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

[2] The above financial information has been adjusted to reflect the effects of inventory returns within the Group.

The above financial information has been adjusted for the effects of inventory returns within the Group.

2. Material Accounting Policies

2.1 Basis of Preparation

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

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

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

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

· certain financial assets and financial liabilities (including derivatives);

· assets held for sale measured at fair value less cost to sell; and

· defined contribution plans and plan assets measured at fair value.

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

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

2.1 Basis of Preparation (cont'd)

Details of the price index used in the hyperinflationary economies where the Group's foreign operations are located, as well as the annual inflation rates as of December 31, 2025 and 2024, are as follows:

(in percent)

Foreign operation	Country	Price Index	2025	2024
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	TUIK CPI	30.89	44.37

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(1) New and amended standards 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 2025. As of December 31, 2025, these amendments and interpretations do not have a material impact on the consolidated financial statements.

(a) Amendments to KIFRS 1021 *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*

For annual reporting periods beginning on or after January 1, 2025, amendments to KIFRS 1021 *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. The amendments did not have a material impact on the Group's consolidated financial statements.

(b) Amendments to KIFRS 1117 Insurance Contracts – Disclosure of Estimation Techniques for Inputs Used in Measuring Insurance Contract

For annual reporting periods ending on or after December 31, 2025, amendments to KIFRS 1117 *Insurance Contracts* introduce additional disclosure requirements. In certain circumstances, an entity may have insufficient historical data or experience available for specific insurance products. In such cases, insurance-related laws or regulations may require the application of principle-based estimation techniques. Where the estimation techniques used by the entity to determine inputs applied in the measurement of insurance contracts differ from the principle-based estimation techniques required by applicable insurance-related regulations, and the entity concludes that information about such differences is relevant and material to users of the financial statements, the entity is required to disclose the following information:

- the estimation techniques for inputs used based on significant judgments by the entity including the basis for those judgments and how they differ from the principle-based estimation techniques required by applicable regulations; and

- the effects on the estimates of future cash flows, the contractual service margin, insurance revenue and insurance service expenses that would arise if the principle-based estimation techniques required by applicable regulations had been applied.

However, these amendments are effective only until the annual reporting periods ending on December 31, 2029. The amendments did not have a material impact on the Group's consolidated financial statements.

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

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

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

(a) Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Classification and Measurement of Financial Instruments*

Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures* include:

- a clarification that a financial liability is derecognized on the 'settlement date' and the introduction of an accounting policy choice (if specific conditions are met) to derecognize financial liabilities settled using an electronic payment system before the settlement date;
- additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed;
- clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments; and
- the introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The amendments are effective for annual periods starting on or after January 1, 2026 with early adoption permitted for classification of financial assets and related disclosures only.

(b) Annual Improvements to KIFRS – Volume 11

The annual improvements to KIFRS -*Volume 11* has been issued to enhance consistency of requirements between standards, clarify ambiguous areas and improve understandability.

- KIFRS 1101 *First-time Adoption of International Financial Reporting Standards: Hedge accounting by a first-time adopter*
- KIFRS 1107 *Financial Instruments: Disclosures: Gain or loss on derecognition and implementation guidance*

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

- KIFRS 1109 *Financial Instruments: Derecognition of lease liabilities and definition of transaction price*
- KIFRS 1110 *Consolidated Financial Statements: Determination of a 'de facto agent'*
- KIFRS 1007 *Statement of Cash Flows: Cost method*

The amendments will be effective for reporting periods beginning on or after January 1, 2026. Earlier application is permitted and must be disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(c) Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Contracts Referencing Nature-dependent Electricity*

Amendments to KIFRS 1109 and KIFRS 1107 - *Contracts Referencing Nature-dependent Electricity* have been issued. The amendments:

- clarify the application of the 'own-use' requirements for in-scope contracts;
- amend the designation requirements for a hedged item in a cash flow hedging relationship for in-scope contracts; and
- add new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

The amendments will take effect for annual reporting periods starting on or after January 1, 2026. Early adoption is allowed, but it must be disclosed. The amendments concerning the own-use exception are to be applied retrospectively, while the hedge accounting amendments should be applied prospectively to new hedging relationships designated from the initial application date. Additionally, the KIFRS 1107 disclosure amendments must be implemented alongside the KIFRS 1109 amendments. If an entity does not restate comparative information, it cannot present comparative disclosures. The Group does not expect that the amendments will have a material impact on its consolidated financial statements.

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

(d) KIFRS 1118 *Presentation and Disclosure in Financial Statements*

KIFRS 1118, which replaces KIFRS 1001 *Presentation of Financial Statements*, has been issued. KIFRS 1118 introduces new requirements for presentation within the statement of income, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of income into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new.

The standard requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and it also includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes.

In addition, narrow-scope amendments have been made to KIFRS 1007 *Statement of Cash Flows*, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

KIFRS 1118, and the amendments to the other standards, are effective for reporting periods beginning on or after January 1, 2027, but earlier application is permitted and must be disclosed. KIFRS 1118 will apply retrospectively.

The Group is currently working to identify all impacts the amendments will have on its consolidated financial statements and notes to the consolidated financial statements. The initial expected material impacts on the Group's consolidated financial statements are as follows:

- share of profit or loss of an associate and a joint venture will be classified in the investing category within the statement of comprehensive income;
- foreign exchange difference will be classified in the same category as the related income and expense of the item giving rise to the foreign exchange difference; and
- new disclosure will be added: (i) management-defined performance measures; (ii) specified expense by nature if expenses are presented by function in the operating category of the statement of comprehensive income; and (iii) a reconciliation for each line item in the statement of comprehensive income between the restated amounts presented applying KIFRS 1118 and the amounts previously presented applying KIFRS 1001.

2.3 Material Accounting Policies

Material accounting policies and method of computation used in the preparation of the consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2024, except for the changes due to the application of amendment and enactments of standards described in Note 2.2 and the ones described below.

(1) Operating Segments

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

(2) Consolidation

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

(a) Subsidiaries

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

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

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

2.3 Material Accounting Policies (cont'd)

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

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

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

(b) Associates

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

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

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

(c) Business combinations under common control

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

2.3 Material Accounting Policies (cont'd)

(3) Joint Arrangements

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

(4) Property, Plant and Equipment

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

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

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

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

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

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

2.3 Material Accounting Policies (cont'd)

(5) Borrowing Costs

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

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

(6) Government Subsidies

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

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

2.3 Material Accounting Policies (cont'd)

(7) Intangible Assets

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

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

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

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

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

· it is technically feasible to complete the software so that it will be available for use;

· management intends to complete the software and use or sell it;

· there is an ability to use or sell the software;

· it can be demonstrated how the software will generate probable future economic benefits;

· adequate technical, financial and other resources to complete the development and to use to sell the software are available; and

· the expenditure attributable to the software during its development can be reliably measured.

2.3 Material Accounting Policies (cont'd)

(8) Investment Property

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

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

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

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

(9) Assets Held for Sale

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

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

2.3 Material Accounting Policies (cont'd)

(10) Inventories

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

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

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

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

(11) Impairment of Non-Financial Assets

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

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

2.3 Material Accounting Policies (cont'd)

(12) Financial Assets (Other than Derivative Instruments)

(a) Classification

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

· those to be measured at fair value through profit or loss;

· those to be measured at fair value through other comprehensive income; and

· those to be measured at amortized cost.

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

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

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

(b) Measurement

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

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

- Debt instruments

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

2.3 Material Accounting Policies (cont'd)

A. Financial assets measured at amortized cost

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

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

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

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

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

- Equity instruments

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

2.3 Material Accounting Policies (cont'd)

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

(c) Impairment

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

(d) Recognition and derecognition

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

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

(e) Offsetting of financial instruments

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

2.3 Material Accounting Policies (cont'd)

(13) Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

(14) Derivative Instruments

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

(15) Cash and Cash Equivalents

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

2.3 Material Accounting Policies (cont'd)

(16) Employee Benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

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

(c) Retirement benefits: Defined contribution plans

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

(d) Retirement benefits: Defined benefit plans

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

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

2.3 Material Accounting Policies (cont'd)

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

(e) Termination benefits

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

(17) Refund Liabilities and Provisions

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

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

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

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

(18) Paid-in Capital

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

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

2.3 Material Accounting Policies (cont'd)

(19) Revenue Recognition

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

(a) Sales of goods

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

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

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

(b) Rendering of services

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

2.3 Material Accounting Policies (cont'd)

(c) Sale of real estate

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

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

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

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

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

(d) Lease of real estate

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

(20) Finance Income and Finance Cost

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

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

2.3 Material Accounting Policies (cont'd)

(21) Income Tax Expense

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

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

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

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

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

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

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

2.3 Material Accounting Policies (cont'd)

(22) Functional and Presentation Currency

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

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

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

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

(23) Earnings per Share

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

2.3 Material Accounting Policies (cont'd)

(24) Lease

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

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

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

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

· fixed payments (including in-substance fixed payments), less any lease incentives receivable;

· variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

· amounts expected to be payable by the Group (the lessee) under residual value guarantees;

· the exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option; and

· payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option.

2.3 Material Accounting Policies (cont'd)

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

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

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

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

· the amount of the initial measurement of lease liability;

· any lease payments made at or before the commencement date less any lease incentives received;

· any initial direct costs; and

· estimated restoration costs.

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

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

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

2.3 Material Accounting Policies (cont'd)

(25) Emission Rights

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

(26) Share-based Payments

Management executive of the Group receives remuneration in the form of share-based payments, whereby Management executive renders services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured at fair value at the grant date. The Group uses the weighted-average stock price, calculated based on the stock prices over a specific period at the grant date, as the fair value on the grant date. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the "vesting period"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

(27) Going Concern

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

Following the resolution to liquidate its subsidiary, KT&G Pars, in 2019 and the planned resolution to liquidate another subsidiary, Edn the pine central Seocho Co., Ltd., in 2026, the Group has prepared its consolidated financial statements by using the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows and the notes to consolidated financial statements under the assumption that KT&G Pars and Edn the pine central Seocho Co., Ltd. will be liquidated.

2.3 Material Accounting Policies (cont'd)

(28) Discontinued Operations

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

· represents a separate major line of business or geographical area of operations;

· is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

· is a subsidiary acquired exclusively with a view to resale.

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

(29) Approval of Financial Statements

The consolidated financial statements of the Group have been approved by the Board of Directors on February 25, 2026, and may be modified and approved at the Annual General Meeting of Shareholders.

3. Material Accounting Estimates and Assumptions

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

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

(1) Impairment of CGUs

The Group determines whether to recognize an impairment loss on CGUs in accordance with KIFRS 1036 *Impairment of Assets*. When there is an indication of impairment of assets, the Group performs an impairment assessment by comparing the carrying amount of a CGU with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is determined based on the estimation of the value in use or fair value less costs to sell (see Note 11).

(2) Total construction revenue and total construction cost

(a) Uncertainty of total contract revenue estimates

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Group includes it in contract revenue (see Note 22).

(b) Estimated total construction cost

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period, etc. (see Note 22)

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

(3) Climate-related risks

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

(a) Useful lives of property, plant and equipment

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

(b) Impairment of non-financial assets

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

(c) Fair value measurements

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

(d) Provision for restoration

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

(e) Emission rights

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

4. Operating Segment

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

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

[1] For the year ended December 31, 2024, the Group reclassified Renzoluc Pte., Ltd. from Tobacco segment to Others and revised the comparable information.

(b) Details of segment information on sales and operating profit for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 5,015,375	₩ 1,283,989	₩ 729,463	₩ 365,343	₩ 7,394,170	₩ (814,463)	₩ 6,579,707
Intersegment sales	(648,167)	(147,037)	(16,725)	(2,534)	(814,463)	814,463	-
External sales	4,367,208	1,136,952	712,738	362,809	6,579,707	-	6,579,707
Operating profit[1]	1,141,334	93,024	88,287	7,635	1,330,280	13,386	1,343,666
Depreciation and amortization	215,836	46,618	30,582	11,272	304,308	(11,646)	292,662

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

(in millions of Korean won)	2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 4,242,122	₩ 1,456,022	₩ 375,385	₩ 346,565	₩ 6,420,094	₩ (511,302)	₩ 5,908,792
Intersegment sales	(336,494)	(154,387)	(14,133)	(6,288)	(511,302)	511,302	-
External sales	3,905,628	1,301,635	361,252	340,277	5,908,792	-	5,908,792
Operating profit (loss)[1]	1,090,212	80,658	(433)	11,386	1,181,823	6,991	1,188,814
Depreciation and amortization	173,652	47,064	31,071	10,816	262,603	(12,344)	250,259

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

4. Operating Segment (cont'd)

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

(in millions of Korean won)		2025	2024
Revenue recognized at a point in time:			
Tobacco	Wholesale, retail	₩ 4,353,133	₩ 3,871,132
	Direct sales	14,075	34,496
Ginseng	Wholesale, retail	673,235	811,719
	Direct sales	463,717	489,916
Others	Wholesale, retail	361,047	337,947
	Direct sales	1,762	2,330
Real estate	Sales	197,559	24,930
	Subtotal	6,064,528	5,572,470
Revenue recognized over time:			
Real estate	Sales	408,169	226,116
	Rental	107,010	110,206
	Subtotal	515,179	336,322
	Total	₩ 6,579,707	₩ 5,908,792

(d) The segment information on assets and liabilities as of December 31, 2025 and 2024 is as follows:

(in millions of Korean won)	2025						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 9,569,209	₩ 2,332,163	₩ 948,509	₩ 265,239	₩ 13,115,120	₩ (3,631,549)	₩ 9,483,571
Investments in associates and joint ventures	324,836	-	449,130	39,968	813,934	-	813,934
Assets held for sale	41,298	-	-	-	41,298	-	41,298
Subtotal	₩ 9,935,343	₩ 2,332,163	₩ 1,397,639	₩ 305,207	₩ 13,970,352	₩ (3,631,549)	₩ 10,338,803
Common assets							3,850,324
Total assets							₩ 14,189,127
Acquisition of non-current assets	₩ 650,010	₩ 35,230	₩ 940	₩ 16,432	₩ 702,612	₩ (10,019)	₩ 692,593
Liabilities:							
Segment liabilities	₩ 3,134,737	₩ 225,255	₩ 12,305	₩ 115,857	₩ 3,488,154	₩ (895,295)	₩ 2,592,859
Common liabilities							2,260,099
Total liabilities							₩ 4,852,958

4. Operating Segment (cont'd)

(in millions of Korean won)	2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 8,011,681	₩ 2,256,568	₩ 1,282,788	₩ 388,786	₩ 11,939,823	₩ (2,994,042)	₩ 8,945,781
Investments in associates and joint ventures	-	-	458,891	23,458	482,349	-	482,349
Subtotal	₩ 8,011,681	₩ 2,256,568	₩ 1,741,679	₩ 412,244	₩ 12,422,172	₩ (2,994,042)	₩ 9,428,130
Common assets							4,497,107
Total assets							₩ 13,925,237
Acquisition of non-current assets	₩ 793,559	₩ 36,046	₩ 2,994	₩ 24,865	₩ 857,464	₩ 16	₩ 857,480
Liabilities:							
Segment liabilities	₩ 2,842,050	₩ 259,695	₩ 56,918	₩ 113,864	₩ 3,272,527	₩ (639,058)	₩ 2,633,469
Common liabilities							1,933,303
Total liabilities							₩ 4,566,772

Common assets 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, deferred tax assets and others; common liabilities include borrowings, deferred tax liabilities and others.

(e) The segment information by region where a customer is located for each of the two years in the period ended December 31, 2025 is as follows:

(in millions of Korean won)	2025			2024		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 4,105,284	₩ 2,474,423	₩ 6,579,707	₩ 3,835,686	₩ 2,073,106	₩ 5,908,792
Non-current assets	2,735,627	985,314	3,720,941	3,063,369	592,346	3,655,715

The segment information classified as the above Overseas category is not separately disclosed by each country as sales and non-current assets of certain country is not material.

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

5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Cash on hand	₩ 21	₩ 605
Demand deposits	729,022	915,914
Money Market trust	10,804	1
Others	173,656	219,448
Total	₩ 913,503	₩ 1,135,968

(b) Details of other financial assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Time deposits	₩ 203,277	₩ 37,982	₩ 333,315	₩ 702
Certificate of Deposit	70,000	-	80,000	-
Corporate bonds, etc.	30,000	496	50,002	30,002
Total	₩ 303,277	₩ 38,478	₩ 463,317	₩ 30,704

6. Financial Assets at Fair Value

(a) Details of financial assets measured at fair value through profit or loss as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Money Market Trust	₩ -	₩ 2,640	₩ -	₩ 2,931
MMF	60,005	-	223,353	-
Beneficiary certificate	1,426	330,651	21,588	334,997
Total	₩ 61,431	₩ 333,291	₩ 244,941	₩ 337,928

6. Financial Assets at Fair Value (cont'd)

(b) Details of financial assets measured at fair value through other comprehensive income as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Listed:		
YTN Co. Ltd.	₩ 31,299	₩ 25,727
Shinhan Financial Group Co., Ltd.	148,444	176,703
Subtotal	179,743	202,430
Unlisted	8,168	9,263
Total	₩ 187,911	₩ 211,693

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

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

(c) Changes in financial assets measured at fair value through profit or loss for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Beginning balance	₩ 582,869	₩ 687,388
Acquisition	84,408	76,693
Changes in fair value	(19,478)	(18,500)
Disposal	(253,077)	(162,712)
Ending balance	₩ 394,722	₩ 582,869

6. Financial Assets at Fair Value (cont'd)

(d) Changes in financial assets measured at fair value through other comprehensive income or loss for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Beginning balance	₩ 211,693	₩ 233,058
Changes in fair value	108,270	14,360
Disposal, etc.	(132,052)	(35,725)
Ending balance	₩ 187,911	₩ 211,693

7. Trade and Other Receivables

(a) Details of trade and other receivables as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,537,432	₩ -	₩ 1,363,208	₩ 8,451
Loans	23,297	101,097	70,215	84,080
Other receivables	53,711	7,359	27,036	2,031
Guarantee deposits	60,455	50,192	78,851	46,960
Accrued income	16,499	952	22,342	51
Total	₩ 1,691,394	₩ 159,600	₩ 1,561,652	₩ 141,573

(b) Details of trade and other receivables at a gross amount before deduction of allowances for doubtful accounts and allowances for doubtful accounts therefor as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,732,260	₩ 159,687	₩ 1,603,358	₩ 141,660
Allowances:				
Trade receivables	(31,735)	-	(35,174)	-
Other receivables	(9,131)	(87)	(6,532)	(87)
Total allowances	(40,866)	(87)	(41,706)	(87)
Net trade and other receivables	₩ 1,691,394	₩ 159,600	₩ 1,561,652	₩ 141,573

7. Trade and Other Receivables (cont'd)

(c) Changes in allowance for doubtful accounts for trade and other receivables for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Beginning balance	₩ 41,793	₩ 64,172
Impairment loss (reversal)[1]	273	(22,069)
Write off	(2,939)	(4,690)
Changes in scope of consolidation	(5,006)	-
Net exchange difference	6,832	4,380
Ending balance	₩ 40,953	₩ 41,793

[1] Including reversal of impairment loss of ₩ 9 million classified as profit from discontinued operations for the year ended December 31, 2025 and impairment loss of ₩ 292 million classified as loss from discontinued operations for the year ended December 31, 2024.

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

8. Inventories

(a) Details of Inventories as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			2024		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 79,848	₩ (10,133)	₩ 69,715	₩ 65,557	₩ (8,037)	₩ 57,520
Finished goods	438,081	(13,180)	424,901	411,380	(36,048)	375,332
Half-finished goods and work in progress	1,311,484	(1,165)	1,310,319	1,123,108	(2,559)	1,120,549
Raw materials	1,062,186	(9,230)	1,052,956	958,832	(3,458)	955,374
Supplies	116,368	-	116,368	89,360	-	89,360
By-products	11,416	-	11,416	8,800	-	8,800
Buildings under construction	72,355	-	72,355	99,144	-	99,144
Completed buildings	80,694	(2,838)	77,856	112,069	-	112,069
Sites for construction of real estate	64,248	-	64,248	212,657	-	212,657
Goods in transit	84,650	-	84,650	70,939	(431)	70,508
Total	₩ 3,321,330	₩ (36,546)	₩ 3,284,784	₩ 3,151,846	₩ (50,533)	₩ 3,101,313

(b) The amount of (reversal of) loss on valuation and loss on obsolescence of inventories recognized for each of the two years in the period ended December 31, 2025 is as follows:

(in millions of Korean won)	2025	2024
Cost of sales:		
Impairment loss (reversal) on valuation of inventories	₩ 4,024	₩ (1,461)
Loss on obsolescence of inventories	33,268	13,162
Other expense:		
Loss on obsolescence of inventories	797	152
Total	₩ 38,089	₩ 11,853

9. Investments in Associates and Joint Ventures

(a) Details of investments in associates and joint ventures as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	Date of financial staements used	2025 Ownership (%)	2025 Carrying amount	2024 Ownership (%)	2024 Carrying amount
Associates	LitePharmTech Co., Ltd.[1]	Korea	Manufacturing medical supplies	Dec.31. 2025	12.53	₩ 3,769	12.53	₩ 4,185
	KORAMCO Banpo PFV Co., Ltd.[1]	Korea	Real estate investment, development and rental business	Dec.31. 2025	18.95	11,627	18.95	390
	KOCREF 36 REIT[2]	Korea	Real estate investment, development and rental business	Dec.31. 2025	-	-	21.01	24,010
	KOCREF 41 REIT	Korea	Real estate investment, development and rental business	Dec.31. 2025	26.47	44,717	26.47	45,659
	Cheongna Medipolis PFV Co.,Ltd.[3]	Korea	Real estate development and sales	Dec.31. 2025	51.01	130,989	51.01	118,685
	INNODIS CO., Ltd.[1]	Korea	Advertising agency	Dec.31. 2025	19.64	349	19.64	408
	SJ BIO MED Co., Ltd.[1,4]	Korea	Manufacturing medical supplies	Dec.31. 2025	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	Research and development of New medicine	Dec.31. 2025	21.92	-	21.92	-
	Mirae Asset KT&G Investment Fund I	Korea	Health Care, ESG, New business industry	Dec.31. 2025	50.00	26,974	50.00	16,055
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	Real estate development and rental business	Dec.31. 2025	-	-	35.00	108
	KB KT&G New Growth Fund 1[5]	Korea	Health Care, New business industry	Dec.31. 2025	66.67	8,876	66.67	2,812
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund[6]	Korea	Renting of real estate	Dec.31. 2025	51.35	6,087	51.35	9,122
	Starfield Suwon, Inc.	Korea	Real estate development and rental business	Dec.31. 2025	50.00	255,633	50.00	260,693
	Sangsang Loft Co.,Ltd.	Korea	Real estate development and rental business	Dec.31. 2025	50.00	77	50.00	222
	ASF International Holding Company AB[6]	Sweden	Holding company	Dec.31. 2025	51.00	324,836	-	-
	Total					₩ 813,934		₩ 482,349

[1] The Group classified its interests in the entities as investment in associates, as the Group is deemed to have significant influence over such entities and has the right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage below 20%.

[2] As of December 31, 2025, the investments in the associate were reclassified to assets held for sale as the associate resolved to conduct a capital reduction (see Note 33).

[3] The Group has classified its interests in the entities 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.

[4] As of December 31, 2025, the liquidation procedures are in progress.

[5] Although the ownership exceeds 50%, the Group classified its interests in the entity as investment in associates as the Group does not have control over related activities and has significant influence through participating in investment decision-making authority.

[6] The Group classified its interest in the entities as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

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

(b) Details of financial information on the Group's associates and joint ventures are as follows:

(1) As of and for the year ended December 31, 2025

A. Summarized financial information

(in millions of Korean won)

Name of entity	2025					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	₩ 22,814	₩ 57,202	₩ 40,454	₩ 9,484	₩ 59,166	₩ (2,982)
KORAMCO Banpo PFV Co., Ltd.	46,256	38,505	24,288	-	271,859	59,299
KOCREF 41 REIT	8,893	371,029	2,651	208,336	15,980	4,371
Cheongna Medipolis PFV Co.,Ltd.	146,566	16,695	1,961	-	-	(6,583)
INNODIS CO., Ltd.	2,015	7,098	2,947	4,389	5,280	(334)
Mirae Asset KT&G Investment Fund I	10,578	43,369	-	-	-	11,838
KB KT&G New Growth Fund 1	13,393	-	79	-	4,918	4,597
KORAMCO Europe Private REIT 3-2 Fund	7,385	118,989	15,565	100,630	6,968	(8,160)
Starfield Suwon, Inc.	118,925	884,519	56,158	436,019	107,764	14,731
Sangsang Loft Co.,Ltd.	166	-	-	-	-	(278)
ASF International Holding Company AB	63,993	303,313	21,215	17,613	-	-

B. Additional financial information on joint ventures

(in millions of Korean won)

Name of entity	2025							
	Cash and cash equivalents	Current financial liabilities[1]	Non-current financial liabilities[1]	Depreciation expense	Amortization	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	₩ 6,181	₩ 5,138	₩ 99,134	₩ 3,932	₩ -	₩ 202	₩ 5,802	₩ 361
Starfield Suwon, Inc.	110,845	-	388,534	28,454	1	1,910	20,494	4,630
Sangsang Loft Co.,Ltd.	152	-	-	2	-	-	-	-
ASF International Holding Company AB	35,422	-	-	-	-	-	-	-

[1] The amount excludes trade payables, other payables, provisions and lease liabilities.

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

(2) As of and for the year ended December 31, 2024

A. Summarized financial information

(in millions of Korean won)

Name of entity	2024					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	₩ 19,744	₩ 54,904	₩ 30,329	₩ 10,920	₩ 53,819	₩ 612
KORAMCO Banpo PFV Co., Ltd.	8,468	173,277	109,371	71,200	-	(9,261)
KOCREF 36 REIT	3,179	428,183	1,448	293,122	18,974	2,748
KOCREF 41 REIT	11,698	373,199	1,614	210,787	18,825	6,491
Cheongna Medipolis PFV Co.,Ltd.	155,167	16,695	4,088	-	-	(3,977)
INNODIS CO., Ltd.	2,033	6,900	2,329	4,529	5,722	82
Mirae Asset KT&G Investment Fund I	8,719	23,390	-	-	-	1,164
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	1,056	-	747	-	-	12
KB KT&G New Growth Fund 1	4,294	-	77	-	27	(280)
KORAMCO Europe Private REIT 3-2 Fund	3,576	111,940	5,917	91,259	6,296	(6,536)
Starfield Suwon, Inc.	112,384	895,552	241,015	245,534	104,785	13,807
Sangsang Loft Co.,Ltd.	638	8	198	4	-	(196)

B. Additional financial information on joint ventures

(in millions of Korean won)

Name of entity	2024						
	Cash and cash equivalents	Current financial liabilities[1]	Non-current financial liabilities[1]	Depreciation expense	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	₩ 2,619	₩ 1,137	₩ 89,902	₩ 3,608	₩ 178	₩ 4,240	₩ (151)
Starfield Suwon, Inc.	105,228	195,000	193,620	27,694	2,418	21,846	821
Sangsang Loft Co.,Ltd.	638	-	-	-	-	-	-

[1] The amount excludes trade payables, other payables and provisions.

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

(c) Changes in investments in associates and joint ventures for each of the two years in the period ended December 31, 2025 are as follows:

(1) For the year ended December 31, 2025

(in millions of Korean won)

Name of entity	2025								
	Beginning balance	Acquisition	Disposal[1]	Share of net profit (loss)	Dividends	Capital changes	Impairment	Reclassification, etc.[2]	Ending balance
LitePharmTech Co., Ltd.	₩ 4,185	₩ -	₩ -	₩ (412)	₩ -	₩ (4)	₩ -	₩ -	₩ 3,769
KORAMCO Banpo PFV Co., Ltd.	390	-	-	11,237	-	-	-	-	11,627
KOCREF 36 REIT	24,010	-	-	900	(600)	-	-	(24,310)	-
KOCREF 41 REIT	45,659	-	-	1,158	(2,100)	-	-	-	44,717
Cheongna Medipolis PFV Co.,Ltd.	118,685	-	-	12,304	-	-	-	-	130,989
INNODIS CO., Ltd.	408	-	-	35	-	(94)	-	-	349
Mirae Asset KT&G Investment Fund I	16,055	5,000	-	6,116	-	(197)	-	-	26,974
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	108	-	(108)	-	-	-	-	-	-
KB KT&G New Growth Fund 1	2,812	3,000	-	3,064	-	-	-	-	8,876
KORAMCO Europe Private REIT 3-2 Fund	9,122	-	-	(2,342)	-	(693)	-	-	6,087
Starfield Suwon, Inc.	260,693	-	-	7,365	(12,425)	-	-	-	255,633
Sangsang Loft Co.,Ltd.	222	-	-	(139)	-	-	(6)	-	77
ASF International Holding Company AB[3]	-	431,927	(107,091)	-	-	-	-	-	324,836
Total	₩ 482,349	₩ 439,927	₩ (107,199)	₩ 39,286	₩ (15,125)	₩ (988)	₩ (6)	₩ (24,310)	₩ 813,934

[1] ₩ 108 million of the effect of changes in scope of consolidation is included.

[2] As of December 31, 2025, the investments in the associate were reclassified to assets held for sale and then disposed of as the associate resolved to conduct a capital reduction with consideration (see Note 33).

[3] In accordance with the shareholders' agreement between the Group and Altria Ventures Inc. (the "joint investor"), the Group has the right to purchase the joint investor's shares from the point when four years have elapsed after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares in ASF International Holding Company AB to the Group from the point when five years have elapsed after the closing date. The Group added a financial liability of ₩160,560 million related to these rights to the acquisition cost of investments in joint ventures.

(2) For the year ended December 31, 2024

(in millions of Korean won)

Name of entity	2024						
	Beginning balance	Acquisition	Disposal	Share of net profit (loss)	Dividends	Capital changes	Ending balance
LitePharmTech Co., Ltd.	₩ 4,123	₩ -	₩ -	₩ 64	₩ -	₩ (2)	₩ 4,185
KORAMCO Banpo PFV Co., Ltd.	2,163	-	-	(1,773)	-	-	390
KORAMCO Dongjak PFV Co., Ltd.	1,455	-	(2,244)	789	-	-	-
KOCREF 36 REIT	24,010	-	-	1,200	(1,200)	-	24,010
KOCREF 41 REIT	46,025	-	-	1,718	(2,084)	-	45,659
AndaStation Professional Investment Private REIT No.1	20,961	-	(23,738)	2,777	-	-	-
Cheongna Medipolis PFV Co.,Ltd.	107,512	-	-	11,173	-	-	118,685
INNODIS CO., Ltd.	393	-	-	15	-	-	408
Mirae Asset KT&G Investment Fund I	10,473	5,000	-	146	-	436	16,055
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	104	-	-	4	-	-	108
KB KT&G New Growth Fund 1	2,998	-	-	(186)	-	-	2,812
KORAMCO Europe Private REIT 3-2 Fund	10,568	1,422	-	(1,869)	-	(999)	9,122
Starfield Suwon, Inc.	240,542	15,000	-	5,272	-	(121)	260,693
Sangsang Loft Co.,Ltd.	-	320	-	(98)	-	-	222
Total	₩ 471,327	₩ 21,742	₩ (25,982)	₩ 19,232	₩ (3,284)	₩ (686)	₩ 482,349

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

(d) Reconciliations of the summarized financial information presented to the carrying amounts of the Group's investments in associates and joint ventures as of December 31, 2025 and 2024 are as follows:

(1) As of December 31, 2025

(in millions of Korean won)

Name of entity	2025							
	Net assets	Ownership (%)	Share of net assets[1]	Goodwill	Impairment loss	Preferred stock effect	Other	Carrying amount
LitePharmTech Co., Ltd.	₩ 30,078	12.53	₩ 3,769	₩ -	₩ -	₩ -	₩ -	₩ 3,769
KORAMCO Banpo PFV Co., Ltd.	60,473	18.95	11,460	167	-	-	-	11,627
KOCREF 41 REIT	168,935	26.47	44,717	-	-	-	-	44,717
Cheongna Medipolis PFV Co.,Ltd.	161,300	51.01	82,280	382	-	48,327	-	130,989
INNODIS CO., Ltd.	1,777	19.64	349	-	-	-	-	349
Mirae Asset KT&G Investment Fund I	53,947	50.00	26,974	-	-	-	-	26,974
KB KT&G New Growth Fund 1	13,314	66.67	8,876	-	-	-	-	8,876
KORAMCO Europe Private REIT 3-2 Fund	10,179	51.35	6,087	-	-	-	-	6,087
Starfield Suwon, Inc.	511,267	50.00	255,633	-	-	-	-	255,633
Sangsang Loft Co.,Ltd.	166	50.00	83	-	(6)	-	-	77
ASF International Holding Company AB[2]	328,478	51.00	328,478	-	-	-	(3,642)	324,836

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

[2] In accordance with the shareholders' agreement with Altria Ventures Inc. (the "joint investor"), the Group has the right and obligation to purchase the remaining shares of the investee held by the joint investor, and as the Group has present access to such remaining shares, the economic ownership was determined at 100% in applying the equity method. The difference between the Group's share of the identifiable net assets of the investee and the acquisition cost of investments in joint ventures at the time of acquisition was reflected through adjustments to the carrying amount of investments in joint ventures. The present value of the exercise consideration related to the joint investor's put option on the remaining shares under the shareholders' agreement was recognized as a financial liability, and the initial recognition amount of such financial liability was added to the acquisition cost of investments in joint ventures.

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

(2) As of December 31, 2024

(in millions of Korean won)	2024					
Name of entity	Net assets	Ownership (%)	Share of net assets[1]	Goodwill	Preferred stock effect	Carrying amount
LitePharmTech Co., Ltd.	₩ 33,399	12.53	₩ 4,185	₩ -	₩ -	₩ 4,185
KORAMCO Banpo PFV Co., Ltd.	1,174	18.95	223	167	-	390
KOCREF 36 REIT	136,792	21.01	28,740	-	(4,730)	24,010
KOCREF 41 REIT	172,496	26.47	45,659	-	-	45,659
Cheongna Medipolis PFV Co.,Ltd.	167,774	51.01	85,582	382	32,721	118,685
INNODIS CO., Ltd.	2,075	19.64	408	-	-	408
Mirae Asset KT&G Investment Fund I	32,109	50.00	16,055	-	-	16,055
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	309	35.00	108	-	-	108
KB KT&G New Growth Fund 1	4,217	66.67	2,812	-	-	2,812
KORAMCO Europe Private REIT 3-2 Fund	18,340	51.35	9,122	-	-	9,122
Starfield Suwon, Inc.	521,387	50.00	260,693	-	-	260,693
Sangsang Loft Co.,Ltd.	444	50.00	222	-	-	222

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

10. Property, Plant and Equipment

(a) Details of the carrying amount of property, plant and equipment as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			2024		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 495,303	₩ -	₩ 495,303	₩ 556,616	₩ -	₩ 556,616
Buildings	1,560,811	(676,054)	884,757	1,306,167	(678,986)	627,181
Structures	92,463	(55,976)	36,487	84,846	(52,012)	32,834
Machinery	2,450,371	(1,580,492)	869,879	2,043,483	(1,410,530)	632,953
Vehicles	14,868	(8,611)	6,257	13,132	(7,795)	5,337
Tools	123,335	(93,874)	29,461	112,549	(82,622)	29,927
Equipment	196,105	(131,519)	64,586	198,357	(134,654)	63,703
Others	12,558	(1,503)	11,055	6,800	(947)	5,853
Construction in progress	432,877	(7,685)	425,192	732,329	(22,351)	709,978
Total	₩ 5,378,691	₩ (2,555,714)	₩ 2,822,977	₩ 5,054,279	₩ (2,389,897)	₩ 2,664,382

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

(b) Changes in property, plant and equipment for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment	Reclassification, etc.[2]	Ending balance
Land	₩ 556,616	₩ 1,110	₩ (44,210)	₩ -	₩ -	₩ (18,213)	₩ 495,303
Buildings	627,181	99,007	(39,857)	(44,064)	(396)	242,886	884,757
Structures	32,834	6,041	(101)	(3,803)	(500)	2,016	36,487
Machinery	632,953	173,783	(369)	(116,932)	(70,477)	250,921	869,879
Vehicles	5,337	2,849	(122)	(1,920)	-	113	6,257
Tools	29,927	12,064	(3)	(13,134)	(121)	728	29,461
Equipment	63,703	28,359	(623)	(24,874)	(118)	(1,861)	64,586
Others	5,853	6,312	(532)	(949)	-	371	11,055
Construction in progress	709,978	280,008	(53)	-	(12,683)	(552,058)	425,192
Total	₩ 2,664,382	₩ 609,533	₩ (85,870)	₩ (205,676)	₩ (84,295)	₩ (75,097)	₩ 2,822,977

[1] For the year ended December 31, 2025, ₩ 26,061 million of capitalized borrowing costs for the qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 3.7% to 8.6%.

[2] For the year ended December 31, 2025, the Group estimated the recoverable amounts of NGP idle facilities and slurry-type lamina manufacturing facilities at their respective value in use, and recognized impairment losses of ₩67,419 million and ₩16,746 million, respectively.

[3] Consists of ₩ 18,732 million of transfers to investment properties and ₩ 84,774 million of transfers to assets held for sale (see Notes 12 and 33).

(in millions of Korean won)	2024						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment[2]	Reclassification, etc[3]	Ending balance
Land	₩ 527,210	₩ 11,814	₩ (380)	₩ -	₩ -	₩ 17,972	₩ 556,616
Buildings	585,274	42,894	(965)	(34,121)	(45)	34,144	627,181
Structures	35,797	4,727	(35)	(3,385)	(29)	(4,241)	32,834
Machinery	533,571	78,166	(180)	(94,514)	(14,586)	130,496	632,953
Vehicles	2,014	4,372	(51)	(1,177)	-	179	5,337
Tools	27,675	14,656	(28)	(11,945)	-	(431)	29,927
Equipment	46,458	32,064	(281)	(21,275)	-	6,737	63,703
Others	5,379	631	-	(193)	-	36	5,853
Construction in progress	333,089	591,966	-	-	(22,351)	(192,726)	709,978
Total	₩ 2,096,467	₩ 781,290	₩ (1,920)	₩ (166,610)	₩ (37,011)	₩ (7,834)	₩ 2,664,382

[1] For the year ended December 31, 2024, ₩ 17,353 million of capitalized borrowing costs for qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 3.7% to 9.4%.

[2] The Parent Company's subsidiary, Tae-A Industrial Co., Ltd., recognized an impairment loss of ₩36,006 million for the year ended December 31, 2024 based on the impairment test of property, plant and equipment having resulted in an indication of possible impairment.

[3] Consists of ₩ 8,090 million of transfers to investment properties (see Note 12).

11. Intangible Assets

(a) Details of carrying amount of intangible assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			2024		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩ 111,394	₩ (111,394)	₩ -	₩ 111,393	₩ (108,093)	₩ 3,300
Industrial property rights	69,931	(18,435)	51,496	56,698	(16,944)	39,754
Facility usage rights	38,226	(202)	38,024	38,367	(138)	38,229
Intangible assets under development	47,587	(1,301)	46,286	35,650	(1,445)	34,205
Other intangible assets	265,013	(229,944)	35,069	263,391	(199,198)	64,193
Total	₩ 532,151	₩ (361,276)	₩ 170,875	₩ 505,499	₩ (325,818)	₩ 179,681

(b) Changes in intangible assets for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment[1]	Reclassification, etc.	Ending balance
Goodwill	₩ 3,300	₩ -	₩ -	₩ -	₩ (3,300)	₩ -	₩ -
Industrial property rights	39,754	4,048	(256)	(1,499)	(103)	9,552	51,496
Facility usage rights	38,229	3,392	(3,669)	(49)	-	121	38,024
Intangible assets under development	34,205	23,730	-	-	(655)	(10,994)	46,286
Other intangible assets	64,193	5,535	(177)	(30,761)	(4,908)	1,187	35,069
Total	₩ 179,681	₩ 36,705	₩ (4,102)	₩ (32,309)	₩ (8,966)	₩ (134)	₩ 170,875

[1] The Group performed impairment assessment on CGUs of CENTRAL PHARM INC. and recognized the difference between the carrying amount and the recoverable amount as impairment losses. The amount includes impairment of goodwill of ₩ 3,300 million and impairment of other intangible assets of ₩ 4,656 million.

(in millions of Korean won)	2024							
	Beginning balance	Acquisition	Increase due to business combination[1]	Disposal	Amortization	Impairment	Reclassification, etc.	Ending balance
Goodwill	₩ -	₩ -	₩ 3,300	₩ -	₩ -	₩ -	₩ -	₩ 3,300
Industrial property rights	28,501	4,316	80	(508)	(1,022)	-	8,387	39,754
Facility usage rights	39,776	420	-	(1,894)	(35)	-	(38)	38,229
Intangible assets under development	30,786	16,542	-	(11)	-	(357)	(12,755)	34,205
Other intangible assets	75,965	9,509	4,795	(1,088)	(30,122)	-	5,134	64,193
Total	₩ 175,028	₩ 30,787	₩ 8,175	₩ (3,501)	₩ (31,179)	₩ (357)	₩ 728	₩ 179,681

[1] Changes due to business combination are included.

11. Intangible Assets (cont'd)

(c) Research and development expenditures recognized as expenses for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Cost of sales	₩ 5,901	₩ 2,171
Selling, general and administrative expenses	67,272	59,954
Total	₩ 73,173	₩ 62,125

(d) Impairment assessment on CGUs (including goodwill)

The Group reviews if there is any indication of impairment for the CGUs, and if an indication of impairment is found, the Group estimates the recoverable amount and performs an impairment assessment. As a result of the impairment assessment of the CGUs presenting an indication of impairment, impairment losses were recognized on CGUs of CENTRAL PHARM INC. and the recoverable amount was measured at its value-in-use.

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

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

(in percent)	2025
Sales growth rate	7.90
Gross margin (% of revenue)	62.97
Operating income rate	2.82

[1] Annual average rate over the five-year forecast period.

Discount rate used for value-in-use calculation is weight average cost of capital adjusted to reflect the risks specific to the asset. Details of the discount rates used for value-in-use calculation for the year ended December 31, 2025 are as follows:

(in percent)	2025
CGUs of the CENTRAL PHARM INC.	11.90

11. Intangible Assets (cont'd)

The recoverable amount and impairment loss recognized on CGUs of CENTRAL PHARM INC. for the year ended December 31, 2025 is as follows:

(in millions of Korean won)	2025
Recoverable amount	1,330
Impairment loss recognized	(7,988)

As a result of the impairment assessment of the CGUs presenting an indication of impairment for the year ended December 31, 2025, the carrying amount of the CGUs of CENTRAL PHARM INC. exceeded its recoverable amount. Accordingly, the entire goodwill was recognized as impairment, and impairment losses on intangible assets and property, plant and equipment were recognized.

The assumptions that are most sensitive to the value-in-use of the CGUs of CENTRAL PHARM INC. are the discount rate and perpetual growth rate, and the effects of changes in the assumptions for the year ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	
	Increase by 1%[1]	Decrease by 1%[1]
Discount rate		
Impact on value-in-use	₩ (414)	₩ 500
Impairment loss recognized	(7,988)	(7,988)
Permanent growth rate		
Impact on value-in-use	109	(90)
Impairment loss recognized	(7,988)	(7,988)

[1] As impairment losses have already been recognized for the entire assets allocable to the CGU, no additional impairment losses would arise even if the discount rate and perpetual growth rate were to change.

(e) Individually significant intangible assets

Details of individually significant intangible assets other than goodwill as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)		Useful life	2025	2024
SAP system development	Intangible assets under development	-	₩ 737	₩ 249
	Other intangible assets	4 years	13,888	29,844
	Total		₩ 14,625	₩ 30,093

12. Investment Properties

(a) Details of investment properties as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			2024		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 352,356	₩ (14,350)	₩ 338,006	₩ 391,940	₩ (14,350)	₩ 377,590
Buildings	590,404	(267,545)	322,859	606,785	(250,099)	356,686
Right-of-use assets	-	-	-	130	(96)	34
Construction in progress	4,156	-	4,156	26,844	-	26,844
Total	₩ 946,916	₩ (281,895)	₩ 665,021	₩ 1,025,699	₩ (264,545)	₩ 761,154

(b) Changes in investment properties for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment	Reclassification, etc.[2]	Ending balance
Land	₩ 377,590	₩ 468	₩ (4,124)	₩ -	₩ -	₩ (35,928)	₩ 338,006
Buildings	356,686	-	(2,121)	(21,968)	(67)	(9,671)	322,859
Right-of-use assets	34	-	-	(34)	-	-	-
Construction in progress	26,844	929	-	-	-	(23,617)	4,156
Total	₩ 761,154	₩ 1,397	₩ (6,245)	₩ (22,002)	₩ (67)	₩ (69,216)	₩ 665,021

[1] For the year ended December 31, 2025, ₩ 106 million of capitalized borrowing costs for investment properties that are qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 3.7% to 4.3%.

[2] Consists of ₩ 14,993 million of transfers to inventories, ₩ 18,732 million of transfers from property, plant and equipment and ₩ 73,057 million of transfers to assets held for sale (see Notes 8, 10 and 33).

(in millions of Korean won)	2024						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment	Reclassification, etc.[2]	Ending balance
Land	₩ 448,520	₩ 806	₩ (5,089)	₩ -	₩ (13,321)	₩ (53,326)	₩ 377,590
Buildings	414,771	764	(1,329)	(23,131)	(20,514)	(13,875)	356,686
Right-of-use assets	33	-	-	(50)	-	51	34
Construction in progress	155,110	10,711	-	-	-	(138,977)	26,844
Total	₩ 1,018,434	₩ 12,281	₩ (6,418)	₩ (23,181)	₩ (33,835)	₩ (206,127)	₩ 761,154

[1] For the year ended December 31, 2024, ₩ 1,167 million of capitalized borrowing costs for investment properties that are qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 4.0% to 4.5%.

[2] Consists of ₩ 135,657 million of transfers to inventories, ₩ 8,090 million of transfers from property, plant and equipment and ₩ 78,612 million of transfers to assets held for sale (see Notes 8, 10 and 33).

12. Investment Property (cont'd)

(c) Details of profit or loss recognized related to the investment properties for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Rental income	₩ 71,913	₩ 77,962
Operating expenses	(28,121)	(29,306)
Total	₩ 43,792	₩ 48,656

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩ 1,275,876	₩ 335,935	₩ 1,128,639	₩ 377,590
Buildings	466,771	322,859	493,034	356,686
Right-of-use asset	-	-	34	34
Total	₩ 1,742,647	₩ 658,794	₩ 1,621,707	₩ 734,310

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

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

(in millions of Korean won)		Carrying amount		
	Type	2025	2024	Reason why fair value cannot be measured reliably
Donggwang-dong development site	Construction in progress	₩ -	₩ 7,933	Construction in progress
Anyang-dong development site	Construction in progress	-	14,083	
Seongjeong-dong development site	Land	2,070	-	
	Construction in progress	3,403	4,074	
Seoicheon development site	Construction in progress	754	754	
		₩ 6,227	₩ 26,844	

12. Investment Property (cont'd)

(e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2025, variable lease payment that is based on an index or a rate was ₩ 1,812 million. Even though the Group is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of future minimum lease payments that the Group expects to receive from operating lease contracts for the investment properties described above as of December 31, 2025 are as follows:

(in millions of Korean won)	2025			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩ 48,740	₩ 22,204	₩ 767	₩ 71,711

13. Right-of-use Assets

(a) Details of the carrying amount of right-of-use asset as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			2024		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 7,583	₩ (2,155)	₩ 5,428	₩ 7,455	₩ (2,004)	₩ 5,451
Buildings	86,454	(55,556)	30,898	77,214	(44,251)	32,963
Vehicles	40,838	(15,149)	25,689	25,316	(13,308)	12,008
Others	92	(39)	53	93	(17)	76
Total	₩ 134,967	₩ (72,899)	₩ 62,068	₩ 110,078	₩ (59,580)	₩ 50,498

(b) Changes in right-of-use assets for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025						
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Others	Ending balance
Land	₩ 5,451	₩ -	₩ -	₩ (112)	₩ -	₩ 89	₩ 5,428
Buildings	32,963	22,202	(2,271)	(22,816)	(270)	1,090	30,898
Machinery	-	59	-	(59)	-	-	-
Vehicles	12,008	22,472	(488)	(9,665)	(15)	1,377	25,689
Others	76	39	-	(28)	-	(34)	53
Total	₩ 50,498	₩ 44,772	₩ (2,759)	₩ (32,680)	₩ (285)	₩ 2,522	₩ 62,068

(in millions of Korean won)	2024						
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Others	Ending balance
Land	₩ 5,015	₩ 21	₩ -	₩ (144)	₩ -	₩ 559	₩ 5,451
Buildings	30,762	25,243	(1,403)	(20,472)	(2,067)	900	32,963
Machinery	-	59	-	(59)	-	-	-
Vehicles	13,252	7,610	(224)	(8,598)	-	(32)	12,008
Others	-	93	-	(17)	-	-	76
Total	₩ 49,029	₩ 33,026	₩ (1,627)	₩ (29,290)	₩ (2,067)	₩ 1,427	₩ 50,498

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

(c) The amount recognized on the consolidated statements of comprehensive income related to lease for each of the two years in the period ended December 31, 2025 is as follows:

(in millions of Korean won)	2025	2024
Depreciation expense	₩ 32,680	₩ 29,290
Interest expense	3,024	2,097
Short-term lease expense	1,269	1,407
Lease payment for low-value assets	982	918
Variable lease expense	49,510	51,994
Loss on impairment of right-of-use assets	285	2,067
Loss (gain) on lease contract adjustments	(439)	587
Total	₩ 87,311	₩ 88,360

For the year ended December 31, 2025, total cash outflows related to lease are ₩ 81,372 million (₩ 80,758 million for the year ended December 31, 2024).

(d) Sale and leaseback

For the year ended December 31, 2025, the Group made a transaction for sale and leaseback of knowledge industry center in Gwacheon knowledge information town and rented the right-of-use assets to a third party for asset-backed securitization and to improve financial structure.

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

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

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

Details of amount recognized from sale and leaseback transaction for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Recorgnizing loss on impairment of right-of-use assets	₩ -	₩ 2,067

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

For each of the two years in the period ended December 31, 2025, the Group has recognized, because of sublease, ₩ 226 million and ₩ 118 million of lease revenue, respectively.

14. Borrowings

(a) Details of short-term borrowings as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	Lender		Annual interest rate (%)	2025	2024
Borrowings	Hana Bank		FTP(6 months)+0.612	₩ -	₩ 3,000
			FTP(6 months)+0.69	200,000	200,000
	Hana Bank Shanghai branch		LPR(1 year)-0.35	2,048	6,539
	NH Nonghyup Bank		MOR (3 months)+1.00	100,000	-
	Citi Bank		2.35	2,755	-
	Shinhan Bank		MOR (6 months)+1.22	-	50,000
			Financial Debenture (6 months)+0.41	10,000	10,000
			Financial Debenture (6 months)+1.05	1,500	-
	Woori Bank		5.97	-	4,000
	Korea Development Bank		3.21	14,000	14,000
		Subtotal		330,303	287,539
Others	Others		4.60~5.00	2,675	436
		Total		₩ 332,978	₩ 287,975

14. Borrowings (cont'd)

(b) Details of the current portion of long-term borrowings and long-term borrowings as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)	2025	2024
Other financial loan for working capital[1]	NH Nonghyup Bank	2026.06.30~ 2027.06.20	-	₩ 13,144	₩ 26,210
Financial agricultural mid-term loan[1]	NH Nonghyup Bank	2028.07.19~ 2030.07.02	-	49,170	32,377
Borrowings	NH Nonghyup Bank	2028.11.21	3.00	11,701	11,370
		2026.12.27~ 2028.12.27	3.00	7,340	9,646
	KB Kookmin Bank	2025.03.07	MOR(1 year) +1.67	-	10,000
		2026.05.07	MOR(3 months) +1.93	-	3,518
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66	-	2,500
		2026.12.02	Industrial Financial Debenture (6 months)+1.23	20,000	20,000
		2030.03.20	Industrial Financial Debenture (1 year)+1.27	15,500	-
		2030.11.20	Industrial Financial Debenture (1 year)+1.27	2,000	-
	Mirae Asset Capital Co., Ltd.	2026.08.29	CP+1.41	46,239	45,843
	IM Bank	2027.05.30	MOR(6 months) +2.18	-	3,492
	Shinhan Bank	2026.05.21	6.50	-	11,292
	Shinhan Card Co., Ltd.	2026.05.21	Financial Debenture (3 years)+1.99	-	19,674
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50	-	14,425
	OK Savings Bank	2026.05.21	9.00	-	8,174
	Korea Investment Savings Bank	2026.05.21	9.00	-	7,213
	JT Chinae Savings Bank	2026.05.21	9.00	-	6,732
	The-K Savings Bank	2026.05.21	9.00	-	4,808
	BNK Savings Bank	2026.05.21	9.00	-	4,808
	Choeun Savings Bank	2026.05.21	9.00	-	2,885
	Insung Savings Bank	2026.05.21	9.00	-	1,923
	Incheon savings bank	2026.05.21	9.00	-	1,923
	Woori Bank	2027.09.27	2.82	-	275
	Shinhan Bank	2027.06.26	Financial Debenture (6 months)+1.75	10,000	-
Others	Korea SMEs And Startups Agency	2027.09.27	3.06	175	-
	Others	2025.10.04~ 2025.10.30	4.60	-	1,071
	Total			175,269	250,159
Consolidated statements of financial position:					
Current				68,864	36,191
Non-current				106,405	213,968
	Total			₩ 175,269	₩ 250,159

[1] The above loans are Contract Cultivation Fund for Ginseng-Integration Project provided as the policy fund for facilitating agriculture, forestry and fisheries sectors by the Ministry of Agriculture, Food and Rural Affairs of the Republic of Korea. Therefore, the interest rate on the loan is 0%, and the amount of present value discounts is recognized as government grants after calculating the present value.

14. Borrowings (cont'd)

(c) As discussed in Note 30 to the consolidated financial statements, the Group has provided collateral for the above borrowings.

15. Bonds

(a) Details of bonds as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	Issuance date	Maturity	Annual interest rate (%)	2025	2024
2-1st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩ -	₩ 100,000
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	200,000
3-1st non-guarantee public bonds	2024.04.25	2026.04.24	3.624	50,000	50,000
3-2nd non-guarantee public bonds	2024.04.25	2027.04.23	3.763	150,000	150,000
3-3rd non-guarantee public bonds	2024.04.25	2029.04.25	3.808	100,000	100,000
4-1st non-guarantee public bonds	2024.10.08	2026.10.08	3.218	80,000	80,000
4-2nd non-guarantee public bonds	2024.10.08	2027.10.08	3.306	160,000	160,000
4-3rd non-guarantee public bonds	2024.10.08	2029.10.08	3.335	70,000	70,000
Foreign Currency-Denominated Senior Unsecured Notes	2025.05.02	2028.05.02	5.000	430,470	-
	Subtotal			1,240,470	910,000
	Discount			(3,378)	(2,066)
	Total			₩ 1,237,092	₩ 907,934
Current				₩ 329,742	₩ 99,895
Non-current				907,350	808,039
	Total			₩ 1,237,092	₩ 907,934

15. Bond (cont'd)

(b) Convertible bonds

Details of the book values of convertible bonds issued by the Group as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)		2025	2024
Face value		₩ 42,800	₩ 30,300
Redemption premium		928	1,233
Conversion right adjustment		(3,089)	(4,145)
	Total	₩ 40,639	₩ 27,388
Current		₩ 23,728	₩ 27,388
Non-current		16,911	-
	Total	₩ 40,639	₩ 27,388

Details of issuance condition of convertible bonds issued by the Group as of December 31, 2025 are as follows:

Classification	Details	
Type and name	2nd unregistered coupon non-guarantee private convertible bond	1st unregistered non-guarantee private convertible bond
Underwriter	MIRAE ASSET SECURITIES CO.,LTD. and 15 other underwriters	Korea Investment & Securities Co., Ltd. and 13 other underwriters
Issuing company	Yungjin Pharm. Co., Ltd.	Yungjin Pharm. Co., Ltd.
Issuance date	Nov. 28, 2025	Nov. 21, 2023
Maturity date	Nov. 28, 2030	Nov. 21, 2028
Total issuance amount	₩ 25,100 million[1]	₩ 30,300 million
Remaining issuance amount	₩ 25,100 million[1]	₩ 22,800 million
Conversion price per share	₩ 1,999	₩ 2,305
Number of shares issued at conversion	12,556,278 shares	9,891,540 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.	(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 Nov. 28, 2026 to Oct. 28, 2030	From Nov. 21, 2024 to Oct. 21, 2028
Conversion ratio	100% of bond price	100% of bond price
Early redemption right	On May 28, 2028, which is two years and six months from the date of issuance of the bond, and on each date falling every three months thereafter (an "early redemption payment date"), the bondholders of this bond may request early redemption before maturity for the entire amount calculated by multiplying the electronic registration amount for which early redemption is requested by the early redemption rate. However, if an early redemption payment date is not a business day, repayment shall be made on the following business day, and no interest shall accrue for the period after the early redemption payment date.	On Nov.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	-	-

[1] Out of the total issuance amount of ₩25,100 million for the 2nd unregistered coupon non-guarantee private convertible bonds, the Parent Company acquired ₩ 5,100 million.

16. Trade and Other Payables

(a) Details of trade and other payables as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 30,144	₩ 4,435	₩ 24,800	₩ 11,695
Trade payables	327,725	-	352,239	-
Withholdings	22,702	-	13,263	-
Value-added deposit	169,764	-	172,283	-
Accrued expenses	506,414	74,530	429,855	63,457
Other payables	507,112	194,382	687,583	6,684
Total	₩ 1,563,861	₩ 273,347	₩ 1,680,023	₩ 81,836

(b) Supplier finance arrangements

(1) Conditions of supplier finance arrangements

The Group has entered into reverse factoring arrangements to facilitate early payment to suppliers. The Group repays Hana Bank on the payment due date of the trade payables. As the arrangements do not permit the Group to repay Hana Bank later than the payment due date of the trade payables, the Group classifies the amounts payable to Hana Bank as trade payables. The reverse factoring arrangements are subject to the condition that Hana Bank makes early payments up to a maximum of ₩ 5,000 million per year.

(2) The carrying amounts of financial liabilities and items presented in the consolidated statements of financial position:

(in millions of Korean won)	2025	2024
Supplier finance arrangement liabilities	₩ 1,283	₩ 1,635
- Amounts already received by the supplier from the finance provider	173	298

(3) Range of payment due dates

	Range of payment due dates
Financial liabilities included in supplier finance arrangement	50 to 90 days
Comparable trade payables not included in supplier finance arrangements	10 to 90 days

16.Trade and Other Payables (cont'd)

(4) Non-cash changes

There were no material business combinations or foreign exchange differences that would affect the liabilities under the supplier finance arrangement, and there were no significant non-cash changes in the carrying amounts of trade payables that are part of the Group's supplier finance arrangements. Meanwhile, the carrying amounts of liabilities under the supplier finance arrangement are considered to be reasonable approximations of their fair values, due to their short-term nature.

17. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Defined benefit plans:		
Current service cost	₩ 52,856	₩ 49,006
Net interest on net defined benefit liabilities (assets)	2,066	(478)
Past service cost and loss on settlement	1,435	4,395
Subtotal	56,357	52,923
Defined contribution plan:		
Contributions recognized as expense	10,473	8,482
Other long-term employee benefits:		
Current service cost, etc.	4,356	22,489
Termination benefits:		
Voluntary retirements, etc.	72,372	3,374
Total	₩ 143,558	₩ 87,268

17.Employee Benefits (cont'd)

(b) Changed in net defined benefit liabilities (assets) for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)		2025		2024
Beginning balance	₩	34,552	₩	(23,036)
Current service cost		52,856		49,006
Net interest on net defined benefit liabilities (assets)		2,066		(478)
Past service cost and any loss on settlement		1,435		4,395
Remeasurment of net defined liabilities (assets), before taxes		(11,148)		47,605
Payment amount		(12,643)		(10,101)
Payment of plan assets		(64,361)		(33,805)
Increase due to business combination		-		15
Net exchange differences		(291)		951
Ending balance	₩	2,466	₩	34,552
Consolidated statements of financial positions:				
Present value of defined benefit obligations	₩	589,322	₩	635,837
Fair value of plan assets		(586,856)		(601,285)
Total	₩	2,466	₩	34,552

(c) Changes in the present value of defined benefit obligation for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)		2025		2024
Beginning balance	₩	635,837	₩	580,538
Current service cost		52,856		49,006
Interest expenses		22,084		23,490
Past service cost and any loss on settlement		1,435		4,395
Remeasurement before taxes		(7,341)		49,796
Payment amount		(114,264)		(72,354)
Increase due to business combination		-		15
Net exchange differences		(1,285)		951
Ending balance	₩	589,322	₩	635,837

17.Employee Benefits (cont'd)

(d) Changes in fair value of plan assets for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)		2025		2024
Beginning balance	₩	601,285	₩	603,574
Interest income		20,018		23,968
Remeasurement before taxes		3,807		2,191
Net exchange differences		(994)		-
Payment amount		(101,621)		(62,253)
Payment of plan assets		64,361		33,805
Ending balance	₩	586,856	₩	601,285

The actual amount of interest income arising from plan assets for each of the two years in the period ended December 31, 2025 is ₩ 23,825 million and ₩ 26,159 million, respectively.

(e) Changes in the present value of other long-term employee benefits for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)		2025		2024
Beginning balance	₩	63,757	₩	45,686
Current service cost		5,799		4,717
Past service cost		3,447		9,528
Interest cost		2,108		1,875
Remeasurement element		(6,998)		6,368
Payment amount		(3,616)		(4,453)
Net exchange differences		(12)		36
Ending balance	₩	64,485	₩	63,757

17.Employee Benefits (cont'd)

(f) Detail of remeasurements recognized in other comprehensive income or loss for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ 156	₩ 414
Changes in financial assumptions	16,053	(35,402)
Experience adjustments	(8,868)	(14,808)
	₩ 7,341	₩ (49,796)
Revenue from plan assets, excluding amounts included in net interest	₩ 3,807	₩ 2,191
Remeasurement element of net defined liabilities (assets), before taxes	11,148	(47,605)
Tax effect	(3,060)	12,009
Remeasurement of net defined liabilities (assets), after taxes	₩ 8,088	₩ (35,596)

(g) The fair value of each of the major types included in the fair value of plan assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Regular deposits and cash equivalents	₩ 212,512	₩ 192,768
Principal and interest guarantee financial assets, etc.	374,344	408,517
Total	₩ 586,856	₩ 601,285

(h) The major assumptions used for actuarial evaluation as of December 31, 2025 and 2024 are as follows:

(in percentage)	2025	2024
Discount rate	1.40~27.10	3.33 ~ 23.00
Expected wage increase rate	3.00~22.10	3.00 ~ 20.00

To calculate the present value of the defined benefit obligation, the Group decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2025.

17.Employee Benefits (cont'd)

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2025 and 2024 is as follows:

(in millions of Korean won)	Increase by 1%p	Decrease by 1%p
Changes in discount rate	(51,872)	59,757
Changes in expected wage increase rate	60,137	(52,720)

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

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

A reasonable estimate of the expected contribution related to the defined benefit plan in 2026 is ₩ 17,478 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2025 and 2024 are 7.82 years and 7.41 years, respectively.

18. Refund Liabilities and Provisions

(a) Details of refund liabilities and provisions as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 3,853	₩ -	₩ 6,194	₩ -
Refund liabilities	17,197	7,234	13,925	6,917
Provision for site restoration	1,564	581	1,561	679
Provision for financial guarantee	87	40	7	25
Provision for greenhouse gases	-	-	13	-
Provision for others	22,395	2	17,380	2
Total	₩ 45,096	₩ 7,857	₩ 39,080	₩ 7,623

(b) Changes in refund liabilities and provisions for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 6,194	₩ 10,073	₩ (12,414)	₩ 3,853
Refund liabilities	20,842	19,924	(16,335)	24,431
Provision for site restoration	2,240	154	(249)	2,145
Provision for financial guarantee	32	185	(90)	127
Provision for greenhouse gases	13	13	(26)	-
Provision for others	17,382	9,218	(4,203)	22,397
Total	₩ 46,703	₩ 39,567	₩ (33,317)	₩ 52,953

(in millions of Korean won)	2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 10,189	₩ (5,775)	₩ 6,194
Refund liabilities	17,310	19,839	(16,307)	20,842
Provision for site restoration	2,217	305	(282)	2,240
Provision for financial guarantee	44	87	(99)	32
Provision for greenhouse gases	51	-	(38)	13
Provision for others	16,928	1,194	(740)	17,382
Total	₩ 38,330	₩ 31,614	₩ (23,241)	₩ 46,703

18.Refund Liabilities and Provisions (cont'd)

(c) For returnable sales, the Group sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Refund assets	₩ 536	₩ 1,273

(d) The Group sets up provision for product warranties by estimating the expected warranty amount at the time of selling the next generation device products. The amount of warranty reimbursement assets as of December 31, 2025 is ₩ 256 million (2024: ₩ 4,888 million).

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

(f) The Group's provision for financial guarantee is recognized by estimating the amounts of joint guarantees for down and mid payment loan provided to the buyer related to the off-plan sales construction of ePyeonhansesang Daejeon station Centum Vista and Digital Empire Pyeongchon Biz Valley.

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

19. Share Capital, Other Capital Surplus and Reserves

(a) Details of share capital and other capital surplus as of December 31, 2025 and 2024 are as follows:

(in shares and millions of Korean won)	2025	2024
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share *(in won)*	₩ 5,000	₩ 5,000
Issued	117,976,645 shares	125,362,497 shares
Share capital	954,959	954,959
Other capital surplus	7,889	5,944

As 73,015,252 shares (including 7,385,852 shares for the year ended December 31, 2025) of the Parent Company have been written off to provide additional profit to its shareholders, there is a difference of ₩ 365,076 million between the total face value of the share capital and the shares issued.

(b) Share-based payments

As of December 31, 2025, the Group has equity-settled share-based payments agreements that grants treasury shares to its directors and selected employees based on the approvals from shareholders at the annual general meetings and Board of Directors.

19. Share Capital, Other Capital Surplus and Reserves (cont'd)

① Details of share-based payments granted to directors and selected employees as of December 31, 2025 are as follows:

(in shares and millions of Korean won, except amount of shares granted)

	Long-term and short-term Performance Stock Units (PSUs)		Restricted Stock Units ("RSU")		Profit sharing Performance Stock Units (PSUs)
Granted stocks	Stock of KT&G Corporation		Stock of KT&G Corporation		Stock of KT&G Corporation
Grant method	Distributing treasury stock		Distributing treasury stock		Distributing treasury stock
Grant date	Timing of service rendered (service during 2024)	Timing of service rendered (service during 2025)	Mar. 28, 2024	Mar. 26, 2025	Feb. 24, 2025
Number of shares granted[1]	13,702	14,918	11,906	2,711	3,751
Amount of shares granted[2]	90,713	103,219	90,713	103,219	103,458
Total grant amount	1,243	1,540	1,080	280	388
Vesting conditions	When meeting the performance evaluation criteria		When meeting the continuing service conditions and performance conditions		When meeting the performance evaluation criteria
Payment period	Within a certain period after the finalization of performance evaluation results (to be granted in Feb. 2025)	Within a certain period after the finalization of performance evaluation results (to be granted in Feb. 2026)	At the point of three years from the grant date	At the point of two years from the grant date	Payment within a certain period after the confirmation of payment

[1]The number of granted shares is the number of shares granted when the relevant performance evaluation score is the average of the score range.

[2] The amount was determined based on the weighted average market price of the Group's ordinary shares for the quarter in which the measurement date falls.

② Matters regarding grant date and fair value measurement

For long-term and short-term Performance Stock Units (PSUs), the arrangement was considered to be substantively established at the commencement of rendering of services, and the fair value was measured based on that date. For restricted stock units and profit sharing Performance Stock Units (PSUs), the fair value was measured based on the date when the key terms of the arrangement were determined through the resolution of the Board of Directors. The fair value of the shares granted was determined based on the weighted average market price of the Group's ordinary shares for the quarter in which the measurement date falls, as of the date when each share-based payment arrangement was established, and the expected dividends were not reflected in the fair value measurement.

19. Share Capital, Other Capital Surplus and Reserves (cont'd)

③ Changes in equity-settled share-based payments for each of the two years in the period ended December 31, 2025 are as follows:

(in shares)	2025	2024
Beginning balance	27,063	6,120
Grant	19,925	27,063
Payment	(17,453)	(6,120)
Ending balance	29,535	27,063

④ Details of share-based payments recognized as expense for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Equity-settled	₩ 2,232	₩ 1,493

(c) Details of reserves as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Profit reserve	₩ 602,937	₩ 602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,513,901	5,864,058
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income	35,391	(16,878)
Exchange differences on translating foreign operations	36,736	14,457
Capital changes in equity method	(1,760)	(1,043)
Total	₩ 6,898,937	₩ 7,175,263

19. Share Capital, Other Capital Surplus and Reserves (cont'd)

① Profit reserve

The Commercial Act of Korea stipulates that the Group shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of December 31, 2025 and 2024, the profit reserve set aside in excess of 50% of the Parent Company's share capital is ₩ 125,457 million.

② Reserve for business rationalization

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

③ Reserve for business expansion and other reserve

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

(d) Details of gain and loss on valuation of fair value through other comprehensive income as of December 31, 2025 and 2024, are as follows:

(in millions of Korean won)	2025	2024
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	₩ 47,483	₩ (23,692)
Tax effect	(12,092)	6,814
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	₩ 35,391	₩ (16,878)

20. Treasury Shares and Gain on disposal of Treasury Shares

Details of treasury shares and gain on disposal of treasury shares as of December 31, 2025 and 2024 are as follows:

(in shares and millions of Korean won)	2025	2024
Number of treasury shares	14,189,001 shares	17,506,454 shares
Treasury shares	₩ (835,255)	₩ (1,030,541)
Gain on disposal of treasury shares	529,633	529,029

Changes in the number of treasury shares for the years ended December 31, 2025 and 2024 are as follows:

(in shares)	2025	2024
Beginning balance	17,506,454	21,012,574
Acquisition of treasury shares	4,085,852	4,960,000
Retirement of treasury shares	(7,385,852)	(8,460,000)
Disposal of treasury shares	(17,453)	(6,120)
Ending balance	14,189,001	17,506,454

The Parent company has acquired 4,085,852 treasury shares for the year ended December 31, 2025 (4,960,000 treasury shares for the year ended December 31, 2024) through a transaction on exchange and retired all treasury shares acquired, with a profit.

21. Retained Earnings

Changes in retained earnings for each of the two years in the period ended December 31, 2025 and are as follows:

(in millions of Korean won)		2025		2024
Beginning balance	₩	1,604,517	₩	1,692,239
Dividends		(602,968)		(586,620)
Transfer from other reserve		350,157		108,140
Retirement of treasury shares		(754,370)		(752,873)
Profit for the year		1,102,316		1,164,999
Less: Non-controlling interests		(12,244)		728
Transfer of gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		27,302		12,988
Remeasurements of net defined benefit liabilities (after tax)		8,088		(35,596)
Less: non-controlling interests (after tax)		599		512
Ending balance	₩	1,723,397	₩	1,604,517

22. Real Estate Pre-sales Contract

(a) Details of ongoing real estate pre-sales contracts for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2025				
				Total sales value[1]	Total sales contract value	Revenue (cumulative)[2]	Revenue (period)[3]	Cost (cumulative)[4]
Suwon Hwaseo Prugio Briciel	Jun. 2020	Sep. 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonhansesang Daejeon station Centum Vista	Dec. 2022	May 2026	87.99	212,889	192,719	168,764	49,192	154,406
Nokbeon-dong Mixed-use apartment building	Apr. 2023	Apr. 2025	100.00	29,360	27,160	27,160	4,653	18,180
Elif Mia Station Complex 1	May 2023	Aug. 2026	75.54	61,562	44,907	33,746	15,097	26,691
Elif Mia Station Complex 2	May 2023	Aug. 2026	72.26	155,141	109,786	79,063	36,412	61,817
ePyeonhansesang Pyeongchon Urban Valley	Apr. 2024	Oct. 2026	62.54	399,869	397,970	247,899	146,966	153,523
Digital Empire Pyeongchon Biz Valley	Apr. 2024	Mar. 2027	55.50	348,222	306,790	144,691	124,304	128,196
Anyang-dong Mixed-use apartment building	Jan. 2025	May 2026	75.88	42,044	41,574	31,545	31,545	28,112
	Total			₩ 2,052,143	₩ 1,868,876	₩ 1,480,814	₩ 408,169	₩ 909,026

[1] Including the expected sales value for commercial buildings and efficiency apartments that are scheduled to be recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer.

[2] Presenting the amount after deducting prepayment discounts, etc. from the total sales contract value.

[3] Excluding the revenue of ₩ 197,559 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the year ended December 31, 2025.

[4] Excluding cumulative costs of ₩ 312,217 million for common infrastructure (see Note 30 (d)).

22. Real Estate Pre-sales Contract (cont'd)

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2024				
				Total sales value[1]	Total sales contract value	Revenue (cumulative)[2]	Revenue (period)[3]	Cost (cumulative)[4]
Suwon Hwaseo Prugio Briciel	Jun. 2020	Sep. 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonhansesang Daejeon station Centum Vista	Dec. 2022	Jun. 2026	62.07	226,951	193,218	119,573	55,189	100,482
Nokbeon-dong Mixed-use apartment building	Apr. 2023	Mar. 2025	89.24	29,720	25,220	22,507	13,624	14,777
Elif Mia Station Complex 1	May 2023	Aug. 2026	41.72	61,562	44,907	18,649	11,420	14,099
Elif Mia Station Complex 2	May 2023	Aug. 2026	39.18	155,141	109,162	42,650	24,562	31,600
ePyeonhansesang Pyeongchon Urban Valley	Apr. 2024	Oct. 2026	25.39	399,869	397,970	100,933	100,933	61,913
Digital Empire Pyeongchon Biz Valley	Apr. 2024	Mar. 2027	24.32	352,768	98,001	20,388	20,388	16,540
Gwacheon sangsang Xi tower B	Jan. 2021	May 2023	100.00	266,691	239,568	232,962	-	138,460
Goyang Hyangdong district knowledge industry center[5]	Mar. 2021	Jul. 2023	100.00	541,142	502,711	482,560	-	313,982
	Total			₩ 2,836,900	₩ 2,358,727	₩ 1,788,168	₩ 226,116	₩ 1,029,954

[1] Including the expected sales value for commercial buildings, efficiency apartments and Knowledge Industry Center that are scheduled to be recognized as sales at a point in time when the construction is completed and control of the goods is transferred to the customer.

[2] Presenting the amount after deducting prepayment discounts, etc. from the total sales contract value.

[3] Excluding the revenue of ₩ 24,930 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the year ended December 31, 2024.

[4] Excluding cumulative costs of ₩ 293,284 million for common infrastructure (see Note 30 (d)).

[5] As of December 31, 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.

22. Real Estate Pre-sales Contract (cont'd)

(b) Details of receivables and payables for ongoing real estate pre-sales contracts as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)

Construction project	2025			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 747,359	₩ 587	₩ -
ePyeonhansesang Daejeon station Centum Vista	168,764	35,889	133,588	713
Nokbeon-dong Mixed-use apartment building	27,160	27,160	-	-
Elif Mia Station Complex 1	33,746	5,366	28,627	247
Elif Mia Station Complex 2	79,063	13,572	66,329	838
ePyeonhansesang Pyeongchon Urban Valley	247,899	86,603	161,861	565
Digital Empire Pyeongchon Biz Valley	144,691	19,937	124,754	-
Anyang-dong Mixed-use apartment building	31,545	-	31,545	-
Total	₩ 1,480,814	₩ 935,886	₩ 547,291	₩ 2,363

[1] As of December 31, 2025, due from customers for contract assets is ₩ 526,952 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

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

22. Real Estate Pre-sales Contract (cont'd)

(in millions of Korean won)

Construction project	2024 Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon Hwaseo Prugio Briciel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonhansesang Daejeon station Centum Vista	119,573	30,048	90,240	715
Nokbeon-dong Mixed-use apartment building	22,507	12,610	9,897	-
Elif Mia Station Complex 1	18,649	5,339	13,396	86
Elif Mia Station Complex 2	42,650	13,131	29,736	217
ePyeonhansesang Pyeongchon Urban Valley	100,933	47,906	53,284	257
Digital Empire Pyeongchon Biz Valley	20,388	6,352	14,036	-
Gwacheon sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	₩ 1,788,168	₩ 1,578,269	₩ 211,176	₩ 1,277

[1] As of December 31, 2024, due from customers for contract assets is ₩ 200,870 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

[2] Including advances receipts 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 during the year ended December 31, 2025. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2025 and subject to change in the future.

22. Real Estate Pre-sales Contract (cont'd)

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
Construction project	**Trade receivables for sale in lots**	**Advanced receipts for sale in lots[1]**	**Trade receivables for sale in lots**	**Advanced receipts for sale in lots[1]**
Suwon Hwaseo Prugio Briciel	₩ -	₩ 125	₩ -	₩ 806
ePyeonhansesang Daejeon station Centum Vista	-	105	-	105
Elif Mia Station Complex 1	-	1,275	-	575
Elif Mia Station Complex 2	-	4,603	-	4,332
Sangbong station Ubora First Live and Four Square	9,549	176	9,549	131
Goyang Ilsan Facilities for the Elderly and Child	-	4,200	-	-
Daegu Station Central Xi Commercial Complex	-	58	-	-
Goyang Hyangdong district knowledge industry center	-	-	-	433
Total	₩ 9,549	₩ 10,542	₩ 9,549	₩ 6,382

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

(e) Advanced receipts for sale in lots are a contract liability arising from a contract with a customer. The amount recognized as revenue for the year ended December 31, 2025 in relation to contract liabilities as of January 1, 2025 is ₩ 1,410 million, and the amount recognized as revenue for the year ended December 31, 2024 in relation to contract liabilities as of January 1, 2024 is ₩ 1,063 million.

(f) As of December 31, 2025, the trade receivables for sale in lots were classified as current receivables as they were expected to be realized within the normal operating cycle, but the amount expected to be realized after 12 months as of December 31, 2025 is ₩ 108,910 million.

23. Operating Expenses

(a) Details of expenses classified by nature, incurred for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Changes in inventories	₩ (183,471)	₩ (337,544)
Raw materials etc. used and merchandise purchased	2,410,490	1,915,128
Salaries	813,080	794,688
Retirement and termination benefits	139,209	64,779
Depreciation	260,353	219,080
Amortization	32,309	31,179
Employee welfare	145,412	153,983
Advertising	300,866	341,302
Commissions	571,281	599,612
Other expenses	746,512	937,771
Total	₩ 5,236,041	₩ 4,719,978

23.Operating Expenses (cont'd)

(b) Details of Selling, general and administrative expenses for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Salaries	₩ 539,913	₩ 518,273
Retirement and termination benefits	104,750	42,691
Employee welfare	99,098	107,301
Travel expenses	32,517	25,078
Communication cost	6,551	6,437
Utilities	14,701	15,429
Taxes and dues	33,999	34,328
Supplies	7,322	6,473
Rent	18,209	17,397
Depreciation	71,790	62,120
Amortization	24,255	23,517
Repairs and maintenance	12,228	11,296
Vehicles	7,733	7,379
Insurance	5,348	3,807
Commissions	360,059	363,094
Freight and custody	72,969	72,992
Conferences	6,460	5,686
Advertising	300,782	341,229
Education and training	9,902	8,061
Prizes and rewards	4,453	3,125
Cooperation	1,804	1,436
Research and development	67,272	59,954
Reversal of impairment loss on trade receivables	(1,386)	(23,893)
Total	₩ 1,800,729	₩ 1,713,210

24. Other Income and Expense

(a) Details of other income for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Gain on foreign currency transaction	₩ 98,303	₩ 91,934
Gain on foreign currency translation	84,093	377,205
Gain on valuation of derivatives	37,956	4,545
Reversal of loss on impairment of other receivables	9	-
Gain on disposal of property, plant and equipment	177,017	3,727
Gain on disposal of intangible assets	5	31
Gain on disposal of investment property	5,958	16,114
Gain on lease contract adjustments	559	240
Gain on disposal of assets held for sale	48,335	58,394
Gain on disposal of right-of-use assets	297	-
Miscellaneous income	14,504	21,547
Total	₩ 467,036	₩ 573,737

(b) Details of other expense for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Loss on foreign currency transaction	₩ 92,729	₩ 55,285
Loss on foreign currency translation	130,970	50,158
Loss on disposal of investments in subsidiaries	459	-
Loss on valuation of derivatives	42,919	65,904
Loss on impairment of other receivables	1,658	2,116
Loss on disposal of property, plant and equipment	1,487	587
Loss on impairment of property, plant and equipment	84,296	37,012
Loss on impairment of right-of-use assets	285	2,067
Loss on disposal of intangible assets	454	634
Loss on impairment of intangible assets	8,962	357
Loss on impairment of equity method investments	6	-
Loss on impairment of investment properties	67	33,835
Loss on disposal of investment properties	1,288	403
Loss on disposal of assets held for sale	537	196
Loss on impairment of assets held for sale	43,466	-
Donations	16,354	9,886
Loss on lease contract adjustments	104	145
Loss on business transfer	1,305	-
Miscellaneous loss	21,227	9,679
Total	₩ 448,573	₩ 268,264

25. Finance Income and Costs

(a) Details of finance income and costs for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Finance income:		
Interest income[1]	₩ 109,908	₩ 115,584
Dividend income	17,801	18,566
Gain on valuation of financial assets at fair value through profit or loss	16,487	31,047
Gain on disposal of financial instruments	3,539	69
Total finance income	₩ 147,735	₩ 165,266
Finance costs:		
Interest expense	₩ 74,270	₩ 42,089
Loss on valuation of financial assets at fair value through profit or loss	35,966	49,546
Total finance costs	₩ 110,236	₩ 91,635
Net finance income	₩ 37,499	₩ 73,631

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

(b) Details of interest income included in finance income for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Deposits	₩ 46,138	₩ 54,092
Trade and other receivables	8,009	7,776
Long-term deposits	55,743	53,679
Others	18	37
Total	₩ 109,908	₩ 115,584

25. Finance Income and Costs (cont'd)

(c) Details of interest expenses included in finance costs for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Borrowings and debentures	₩ 54,556	₩ 23,349
Trade and other payables	2,467	11,363
Lease liabilities	3,024	2,097
Others	14,223	5,280
Total[1]	₩ 74,270	₩ 42,089

[1] ₩ 26,092 million and ₩ 14,119 million of capitalized borrowing costs on qualifying assets are excluded from interest expense for each of the two years in the period ended December 31, 2025, respectively.

26. Income Tax Expense and Deferred Tax Asset

(a) Details of income tax expenses elements for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Current tax on profits for the year	₩ 408,445	₩ 348,396
Adjustments with respect to past income taxes, etc.	(8,111)	(21,056)
Increase/decrease from temporary differences	(45,839)	65,170
Effects of income tax on non-recirculation income	(2,271)	1,293
Income tax	₩ 352,224	₩ 393,803
Income tax expense from continuing operations	₩ 352,210	393,689
Income tax expense from discontinued operations	14	114

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

(b) Details of the relationship between income tax expenses and accounting profit for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Profit before income tax expense	₩ 1,455,291	₩ 1,565,825
Tax rate (%)	25.59	24.18
Tax expense at domestic rates applicable to profits in the respective countries	372,428	378,644
Adjustments:		
Non-taxable income	(25,641)	(5,294)
Expenses not deductible for tax purposes	14,171	8,851
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	(334)	30,597
Tax credit	(2,610)	(729)
Adjustments with respect to past income taxes	(8,111)	(21,056)
Additional tax due to surtax on undistributed corporate earnings	(2,271)	1,293
Others	4,578	1,383
Income tax expense from continuing operations	₩ 352,210	₩ 393,689
Average effective tax rate (%)	24.20	25.14

(c) Details of current and deferred income tax related to items recognized outside profit or loss for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Current tax:		
Capital changes in equity method	₩ 272	₩ 181
Consideration for conversion right	(882)	-
Subtotal	₩ (610)	₩ 181
Deferred tax:		
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	₩ (18,906)	₩ 52
Remeasurement element of net defined benefit liabilities	(3,060)	12,009
Subtotal	₩ (21,966)	₩ 12,061
Total	₩ (22,576)	₩ 12,242

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

(d) Changes in deferred income tax assets (liabilities) for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)

	2025			
	Beginning balance	Profit or loss	Other comprehensive income(loss) and others	Ending balance
Accumulated depreciation	₩ 27,555	₩ 28,863	₩ -	₩ 56,418
Loss allowance	34,168	5,745	-	39,913
Financial assets measured at fair value through other comprehensive income (profit or loss)	9,662	9,682	(18,906)	438
Accrued expenses	66,166	15,747	-	81,913
Defined benefit liabilities	38,137	471	(3,060)	35,548
Treasury shares	(9,034)	2,679	-	(6,355)
Investments in subsidiaries	(278,688)	(2,612)	-	(281,300)
Compressed accounts reserve funds	(9,603)	(401)	-	(10,004)
Others	(42,494)	(14,335)	(882)	(57,711)
Total	₩ (164,131)	₩ 45,839	₩ (22,848)	₩ (141,140)

(in millions of Korean won)

	2024			
	Beginning balance	Profit or loss	Other comprehensive income(loss) and others	Ending balance
Accumulated depreciation	₩ 33,266	₩ (5,711)	₩ -	₩ 27,555
Loss allowance	52,135	(17,967)	-	34,168
Financial assets measured at fair value through other comprehensive income (profit or loss)	6,520	3,090	52	9,662
Accrued expenses	66,031	135	-	66,166
Defined benefit liabilities	23,255	2,873	12,009	38,137
Treasury shares	(9,034)	-	-	(9,034)
Investments in subsidiaries	(280,470)	1,782	-	(278,688)
Compressed accounts reserve funds	(9,603)	-	-	(9,603)
Others	6,878	(49,372)	-	(42,494)
Total	₩ (111,022)	₩ (65,170)	₩ 12,061	₩ (164,131)

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

(e) Details of deductible temporary differences, unused tax losses and unused tax credit not recognized as deferred tax assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025	2024
Deductible temporary differences	₩ 706,698	₩ 667,442
Unused tax losses	61,164	111,622
Unused tax credit	3,668	3,664
Total	₩ 771,530	₩ 782,728

(f) The expiry period for unused tax losses and unused tax credits not recognized as deferred tax assets as of December 31, 2025 and 2024 is as follows:

(in millions of Korean won)	2025		2024	
	Unused tax losses	Unused tax credits	Unused tax losses	Unused tax credits
Within 1 year	₩ 10,536	₩ 148	₩ 10,521	₩ 303
1 ~ 2 years	10,302	94	16,462	255
2 ~ 3 years	696	-	18,455	-
Over 3 years	39,630	3,426	66,184	3,106
Total	₩ 61,164	₩ 3,668	₩ 111,622	₩ 3,664

(g) As of December 31, 2025 and 2024, temporary differences to be added in relation to investments in subsidiaries and associates, and equity investments in joint ventures that are not recognized as deferred tax liabilities is ₩ 1,301,564 million as of December 31, 2025 (₩ 1,399,500 million as of December 31, 2024).

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

(h) Global anti-base erosion model rules

If the Group's revenue exceeds EUR 750 million and Pillar Two model rules have been enacted or substantially enacted in some or all of the countries implementing the rules, the following information must be included to meet disclosure requirements:

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy. Global anti-base erosion model rules ('GloBE rule' or 'Pillar Two model rules') apply to multinational enterprises that have consolidated revenue of EUR 750 million or more.

The GloBE Rules propose new taxing mechanisms under which multinational enterprises (MNEs) would pay a minimum level of tax ('Minimum Tax'):

- Qualified Domestic Minimum Top-Up Tax (QDMTT)
- Income Inclusion Rule (IIR)
- Undertaxed Payment Rule (UTPR)

New taxing mechanisms above ensure multinational enterprises pay a minimum level of tax on the income arising in each jurisdiction where they operate. IIR, UTPR and QDMTT are applied by imposing a top-up tax in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum tax rate, 15%.

Amendments to KIFRS 1012 *Income taxes - International tax reform - Pillar Two Model Rules* were issued, and the amendments clarified that KIFRS 1012 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules. The Group applied the following amendments:

- a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two Model Rules; and
- disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation.

Pillar Two model rules were enacted domestically at the end of 2023 and have come into effect since January 1, 2024. Under the rules, the Group is a multinational enterprise subject to the Pillar Two model rules. At the same time, Pillar Two related laws have been enacted or substantially enacted in several other countries in which the Group operates, starting from the annual reporting period commencing January 1, 2024.

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

The Group assessed potential exposure to Pillar Two income taxes based on the 2024 report by countries and 2025 financial information regarding the Group. The effective tax rate under Pillar Two is above 15% in most countries where the Group operates, and the Group expects that, as of 2025, the Pillar Two rules will have no or only an insignificant impact on the entities within the Group.

The Group continues to monitor the legislation details of Pillar Two as other countries enact Pillar Two model rules and assesses the potential impact on the Group's future operating results, financial position and cash flows.

27. Earnings Per Share

(a) The relationship between EPS and accounting profit or loss for each of the two years in the period ended December 31, 2025 is as follows:

(in millions of Korean won, Korean won, and shares)	2025	2024
Profit for the year from continuing operations attributable to owners of the Parent Company	₩ 1,090,837	₩ 1,172,864
Loss for the year from discontinued operation attributable to owners of the Parent Company	(765)	(7,137)
Total	₩ 1,090,072	₩ 1,165,727
Weighted average number of ordinary shares outstanding (shares)	106,655,786	111,498,223
Basic and diluted EPS for continuing operations (Korean won)	10,228	10,519
Basic and diluted EPS for discontinued operation (Korean won)	(8)	(64)
Total	₩ 10,220	₩ 10,455

(b) The basis for the calculation of the weighted-average number of ordinary shares outstanding for each of the two years in the period ended December 31, 2025 is as follows:

(in shares)		2025		
	Date	Number of shares (in shares)	Days	Weighted shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	125,362,497	365	45,757,311,405
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(17,506,454)	365	(6,389,855,710)
Disposal of treasury shares	Feb. 25 ~ Feb.27	17,453	308~310	5,410,024
Acquisition of treasury shares	Aug. 8 ~ Oct. 21	(4,085,852)	72~146	(443,503,977)
Total		103,787,644		38,929,361,742
Days in circulation (days)				365
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				106,655,786

27. Earnings Per Share (cont'd)

(in shares)		2024		
	Date	Number of shares (in shares)	Days	Weighted shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	133,822,497	366	48,979,033,902
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(21,012,574)	366	(7,690,602,084)
Disposal of treasury shares	Feb. 21	6,120	315	1,927,800
Acquisition of treasury shares	Aug. 9 ~ Nov. 27	(4,960,000)	35~145	(482,010,000)
Total		107,856,043		40,808,349,618
Days in circulation (days)				366
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				111,498,223

The weighted average number of ordinary shares is the number of treasury shares acquired and disposed of during the fiscal year or the number of newly issued ordinary shares, adjusted to take into account the weight of each period.

28. Related Parties

(a) Details of the Group's related parties as of December 31, 2025 and 2024 are as follows:

Type	Name of entity	Location	Percentage of ownership (%) 2025	2024
Associates	Lite Pharm Tech, Inc.[1]	Korea	12.53	12.53
	KORAMCO Banpo Project Financing Vehicle Co., Ltd.[1]	Korea	18.95	18.95
	KOCREF 41 REIT	Korea	26.47	26.47
	Cheongna Medipolis PFV Co.,Ltd.[2]	Korea	51.01	51.01
	INNODIS CO.,Ltd.[1]	Korea	19.64	19.64
	SJ BIO MED Co., Ltd.[1,3]	Korea	14.39	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	21.92
	Mirae Asset KT&G Investment Fund I[4]	Korea	50.00	50.00
	KB KT&G New Growth Fund 1[5]	Korea	66.67	66.67
Joint ventures	KORAMCO Europe Private ReIT 3-2 Fund[6]	Korea	51.35	51.35
	Starfield Suwon, Inc	Korea	50.00	50.00
	Sangsang Loft Co.,Ltd.[7]	Korea	50.00	50.00
	ASF International Holding Company AB[6,8]	Sweden	51.00	-
Others	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.[9]	Korea	-	35.00
	KOCREF 36 REIT[10]	Korea	-	21.01
	Others[9]	Korea	-	-

[1] The Group classified its interests in the entities as investment in associates, as the Group is deemed to have significant influence over such entities and has the right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage of less than 20%.

[2] The Group has classified its interests in the entity 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.

28. Related Parties (cont'd)

[3] As of December 31, 2025, the liquidation procedures are in progress.

[4] The Group classified its interest in the entity as investment in associates, as there are no arrangements that incur joint control among the partners, notwithstanding its consolidated ownership percentage of 50%.

[5] Although the ownership exceeds 50%, the Group classified its investments in the entity as investment in associates as the Group does not have control over related activities and has significant influence through participating in investment decision-making authority.

[6] The Group classified its interest in the entities as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

[7] For the year ended December 31, 2024, the Group established Sangsang Loft Co., Ltd. with Zero To N Architects & Engineers General Construction Co., Ltd. under 50:50 ratio. The Group classified its interests in the entity as investment in joint ventures.

[8] For the year ended December 31, 2025, the Group acquired all of the shares of ASF International Holding Company AB for ₩ 271,367 million, and, in accordance with the shareholders' agreement, the Group disposed of a portion of the shares to Altria Ventures Inc. (the "joint investor") for ₩ 107,091 million. Under the shareholders' agreement between the Group and the joint investor, the Group has the right to purchase the joint investor's shares from the point when four years have elapsed after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares in ASF International Holding Company AB to the Group from the point when five years have elapsed after the closing date.

[9] The Group classified the related parties of DNC Deogeun Co., Ltd. as other related party as the Group acquired DNC Deogeun Co., Ltd. as subsidiary for the year ended December 31, 2023. The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

[10] For the year ended December 31, 2025, the Group reclassified all of its shares in KOCREF 36 REIT as assets held for sale and subsequently disposed of them (see Note 33).

28. Related Parties (cont'd)

(b) The Group carries out transactions with related parties such as sales of goods and provision of services, etc. Details of transactions with related parties for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)

Type	Name of entity	2025		2024	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	INNODIS CO.,Ltd.	₩ -	₩ 25	₩ -	₩ 294
	LSK Global Pharma Service Co., Ltd.	-	-	-	64
	Cheongna Medipolis PFV Co.,Ltd.	1,279	-	633	-
Joint ventures	Starfield Suwon, Inc.	4,245	724	147	104
	Sangsang Loft Co.,Ltd.	4	-	-	-
Others	Others[1]	1,546	-	4,994	-
	Total	₩ 7,074	₩ 749	₩ 5,774	₩ 462

[1] The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

(c) Details of account balances of receivables and payables with the related parties as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	2025		2024	
		Receivables	Payables	Receivables	Payables
Associates	INNODIS CO.,Ltd.	₩ -	₩ 25	₩ -	₩ 27
	Cheongna Medipolis PFV Co.,Ltd.	113	-	-	-
Joint ventures	Starfield Suwon, Inc.	37	10	98	10
	Sangsang Loft Co.,Ltd.	-	2	-	2
Others	Others[1,2]	-	-	51,259	113
	Total	₩ 150	₩ 37	₩ 51,357	₩ 152

[1] The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

[2] Presented in the gross amount before deducting loss allowance of ₩ 4,971 million as of December 31, 2024.

28. Related Parties (cont'd)

(d) Details of fund transactions with related parties for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)

Type	Name of entity	2025					2024			
		Equity investment	Loan of funds	Equity recovery	Loan recovery	Dividends	Equity investment	Loan of funds	Equity recovery	Dividends
Associates	KOCREF 41 REIT	₩ -	₩ -	₩ -	₩ -	₩ 2,100	₩ -	₩ -	₩ -	₩ 2,084
	Mirae Asset KT&G Investment Fund I	5,000	-	-	-	-	5,000	-	-	-
	KB KT&G New Growth Fund 1	3,000	-	-	-	-	-	-	-	-
Joint ventures	Starfield Suwon, Inc.	-	-	-	-	12,425	15,000	-	-	-
	KORAMCO Europe Private REIT 3-2 Fund	-	-	-	-	-	1,422	-	-	-
	Sangsang Loft Co.,Ltd.	-	-	-	-	-	320	-	-	-
	ASF International Holding Company AB	271,367	-	107,091	-	-	-	-	-	-
Others	AndaStation Professional Investment Private REIT No.1[1]	-	-	-	-	-	-	-	23,738	-
	KORAMCO Dongjak PFV Co., Ltd.[1]	-	-	-	-	-	-	-	2,244	-
	KOCREF 36 REIT[2]	-	-	23,173	-	1,200	-	-	-	1,200
	Others[3]	-	4,702	-	1,217	-	-	11,870	-	-
	Total	₩ 279,367	₩ 4,702	₩ 130,264	₩ 1,217	₩ 15,725	₩ 21,742	₩ 11,870	₩ 25,982	₩ 3,284

[1] The Group excluded the entities from related parties, as the entity was disposed for the year ended December 31, 2024.

[2] The Group excluded the entity from related parties, as the entity was disposed for the year ended December 31, 2025.

[3] The Group excluded the related parties of DNC Deogeun Co., Ltd. from its related parties, as the Group disposed of all of its shares in DNC Deogeun Co., Ltd. for the year ended December 31, 2025.

(e) 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 restricted for 5 years from the date Starfield Suwon Inc.'s provisional operation is approved. In the event that the Group or the joint investor wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

(f) The Group has entered into a contribution agreement in relation to equity instrument of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2025, 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.

(g) The Parent Company is required to obtain the unanimous consent of other shareholders for disposal of the equity shares of Gwacheon Sangsang PFV. Inc and Sangsang Loft Co., Ltd.

(h) As of December 31, 2025, the Group has entered into a capital call agreement in relation to KORAMCO Europe Private REIT 3-2 Fund. The agreement may incur a payment obligation if the maturity exchange rate rises compared to the contractual exchange rate.

28. Related Parties (cont'd)

(i) The Group has entered into a capital contribution agreement in relation 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 December 31, 2025, the remaining contribution amount is ₩ 4,000 million, and the detailed timeline for contribution is yet to be determined (see Note 30 (d)).

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

(k) The Group established ASF International Holding Company AB ("ASF") with Altria Ventures Inc. (the "joint investor") with an investment ratio of 51:49 during the current period. The disposal of such shares held by the Group and the joint investor is restricted for five years from the effective date of the share purchase agreement. After this restriction period, in the event that the Group or the joint investor intends to transfer its shares, the other party may choose to exercise the pre-emptive right to purchase the shares, the drag-along right, or the joint put-option rights. In addition, the Group has the right to purchase the joint investor's shares beginning four years after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares to the Group beginning five years after the closing date.
The Group added a financial liability of ₩ 160,560 million related to these rights to the acquisition cost of the investments in joint ventures. In addition, under the shareholders' agreement, if certain events occur that result in a loss to the joint investor, the Group is required to ensure that such loss is first covered using ASF's surplus available for dividends. In case the surplus available for dividends are insufficient to fully cover the loss, the Group is obligated to make monetary payment to the joint investor for the uncovered loss amount, for up to the agreed amount specified in the shareholders' agreement. As of December 31, 2025, such events have not occurred, and it is not possible to reasonably estimate whether such events will occur in the future or the amount thereof (see Note 30.(d)).

(l) Details of key management personnel compensations for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)		2025		2024
Long and short-term employee benefits	₩	27,477	₩	25,729
Retirement benefits		2,308		2,413
Total	₩	29,785	₩	28,142

29. Risk Management and Fair Value of Financial Instruments and Capital Management

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 Group'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 that of the previous fiscal year.

(a) Market risk

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

① Foreign exchange 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 measures the risk of fluctuations in foreign exchange rates against the Korean won internally on a regular basis.

The carrying amount of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2025 and 2024 is as follows:

(in millions of Korean won)	2025		2024	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩ 1,796,214	₩ 539,164	₩ 2,277,914	₩ 141,405
EUR	15,460	17,634	29,847	26,664
SEK	-	161,361	-	-
Others	60,164	42,124	9,603	30,393
Total	₩ 1,871,838	₩ 760,283	₩ 2,317,364	₩ 198,462

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

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩ 111,156	₩ (111,156)	₩ 211,890	₩ (211,890)

② Price risk

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

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025		2024	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	₩ 7,444	₩ (7,444)	₩ 1,262	₩ (1,262)

③ Interest rate risk

The Group is exposed to interest rate fluctuation risk in relation to the borrowings, trade payables and other payables and lease liabilities. The management of the Group regularly measures the risk of changes in the fair value or future cash flows of the financial instrument due to changes in the market interest rate, maintaining an appropriate balance between fixed and variable interest borrowings. Considering the size of the interest bearing liabilities of the Group as of December 31, 2025, the effect of changes in interest rates on the fair values of financial liabilities or future cash flows is immaterial.

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

(b) Credit risk

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

The carrying amount of financial assets presents the maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2025 and 2024 is as follows:

(in millions of Korean won)		2025		2024
Cash and cash equivalents (excluding cash on hand)[1]	₩	913,481	₩	1,135,362
Other financial assets		341,755		494,021
Financial assets at fair value through profit or loss[1]		394,723		582,870
Trade and other receivables		1,850,994		1,703,225
Long-term deposits		1,676,086		1,705,504
Derivative assets		4,965		-
Total	₩	5,182,004	₩	5,620,982

[1] As of December 31, 2025, money market trust amounting to ₩ 1 million (2024: ₩ 1 million) classified as cash equivalents are included in the financial assets at fair value through profit or loss.

(c) Liquidity risk

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

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

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 332,978	₩ 334,139	₩ 303,588	₩ 30,551	₩ -	₩ -
Long-term borrowings	175,269	198,093	875	71,934	125,276	8
Bond	1,237,092	1,327,321	17,877	359,822	949,622	-
Convertible bonds	40,639	43,795	23,795	-	20,000	-
Trade and other payables	1,350,168	1,353,430	1,009,247	71,174	200,349	72,660
Derivative liabilities	8,540	8,540	8,540	-	-	-
Lease liabilities	57,209	64,530	9,215	19,434	35,768	113
Non-controlling interest liability	6,469	6,469	-	-	6,469	-
Total	₩ 3,208,364	₩ 3,336,317	₩ 1,373,137	₩ 552,915	₩ 1,337,484	₩ 72,781

(in millions of Korean won)	2024					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 287,975	₩ 289,143	₩ 250,804	₩ 38,339	₩ -	₩ -
Long-term borrowings	250,159	280,435	13,372	31,703	235,360	-
Bond	907,934	994,810	8,572	124,667	861,571	-
Convertible bonds	27,388	31,533	-	31,533	-	-
Trade and other payables	1,308,373	1,318,457	1,240,481	17,633	37,733	22,610
Derivative liabilities	32,801	32,801	29,572	3,229	-	-
Lease liabilities	48,746	53,656	7,199	16,517	29,289	651
Non-controlling interest liability	7,072	7,072	-	-	4,470	2,602
Total	₩ 2,870,448	₩ 3,007,907	₩ 1,550,000	₩ 263,621	₩ 1,168,423	₩ 25,863

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

As of December 31, 2025, the Group provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of ePyeonhansesang Daejeon Station Centum Vista and Digital Empire Pyeongchon Biz Valley (guarantee limit: ₩ 17,960 million, remaining contract maturity: 3 months – 2 years) and has recognized a financial guarantee provision liability of ₩ 127 million (2024: ₩ 47 million) (see Notes 18 (f) and 30 (c)).

Under the shareholders' agreement between the Group and Altria Ventures Inc. (the "joint investor"), the Group has the right to purchase the joint investor's shares from the point when four years have passed after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares to the Group from the point when five years have passed after the closing date. The Group recognized the acquisition cost of investments in joint ventures and a related financial liability amounting to ₩ 160,560 million in connection with the aforementioned right (see Note 30.(d)).

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

In addition, the Group provides contribution commitment for debt/equity instruments, Capital call agreement for overseas property fund and others. Maximum exposure of liquidity risk in relation to such agreements are equal to the agreed amount (see Note 30 (d)).

(d) The carrying amounts of each category of financial instruments as of December 31, 2025 and 2024 are summarized as follows:

(in millions of Korean won)	2025	2024
Financial assets:		
Financial assets at fair value through profit or loss[1]	₩ 394,723	₩ 582,870
Financial assets at fair value through other comprehensive income or loss	187,911	211,693
Derivative assets	4,965	-
Financial assets measured at amortized cost		
Cash and cash equivalents[1]	913,503	1,135,967
Other financial assets	341,755	494,021
Trade and other receivables	1,850,994	1,703,225
Long-term deposits	1,676,086	1,705,504
Subtotal	4,782,338	5,038,717
Total financial assets	₩ 5,369,937	₩ 5,833,280
Financial liabilities:		
Derivative liabilities	₩ 8,540	₩ 32,801
Financial liabilities measured at amortized cost		
Short-term borrowings	332,978	287,975
Long-term borrowings	175,269	250,159
Bond	1,237,092	907,934
Convertible bonds	40,639	27,388
Trade and other payables	1,350,168	1,308,373
Lease liabilities	57,209	48,746
Liabilities for non-controlling interests	6,469	7,072
Subtotal	3,199,824	2,837,647
Total financial liabilities	₩ 3,208,364	₩ 2,870,448

[1] As of December 31, 2025, money market trust worth ₩ 1 million (2024: ₩ 1 million) classified as cash equivalents are included in the financial assets measured at fair value through profit or loss.

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

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

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

The fair value measurements classified by fair value hierarchy as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)	2025			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss	₩ 394,723	₩ -	₩ 67,785	₩ 326,938
Fair value through other comprehensive income or loss	187,911	179,744	-	8,167
Derivative assets	4,965	-	4,965	-
Total financial assets	₩ 587,599	₩ 179,744	₩ 72,750	₩ 335,105
Deriave liabilities	₩ 8,540	₩ -	₩ 8,540	₩ -

(in millions of Korean won)	2024			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss	₩ 582,870	₩ -	₩ 231,324	₩ 351,546
Fair value through other comprehensive income or loss	211,693	202,430	-	9,263
Total financial assets	₩ 794,563	₩ 202,430	₩ 231,324	₩ 360,809
Deriave liabilities	₩ 32,801	₩ -	₩ 32,801	₩ -

There was no movement between levels of the fair value hierarchy for each of the two years in the period ended December 31, 2025.

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

As of December 31, 2025 and 2024, the fair value of investment trust's equity securities classified as financial assets at fair value through profit or loss (other comprehensive income or loss) was measured using the adjusted net asset method and discounted cash flow and was classified as Level 3 fair value based on the inputs used in the valuation technique. Changes in Level 3 fair value for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Beginning balance	₩ 360,809	₩ 397,255
Acquisition	23,708	40,403
Disposal	(20,985)	(45,244)
Changes in fair value	(28,427)	(26,646)
Others	-	(4,959)
Ending balance	₩ 335,105	₩ 360,809

(f) Net gains or losses by category of financial instruments for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 109,908	₩ -	₩ 109,908
Dividend income	9,996	7,805	-	-	-	17,801
Loss on valuation	(19,478)	-	(4,963)	-	-	(24,441)
Gain on disposal	3,539	-	-	-	-	3,539
Gain on lease contract adjustments	-	-	-	-	455	455
Interest expense	-	-	-	-	(74,270)	(74,270)
Impairment loss	-	-	-	(273)	-	(273)
Total	₩ (5,943)	₩ 7,805	₩ (4,963)	₩ 109,635	₩ (73,815)	₩ 32,719
Other comprehensive income before tax:						
Net change in fair value	₩ -	₩ 108,270	₩ -	₩ -	₩ -	₩ 108,270

(in millions of Korean won)	2024					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 115,584	₩ -	₩ 115,584
Dividend income	10,057	8,509	-	-	-	18,566
Loss on valuation	(18,500)	-	(61,359)	-	-	(79,859)
Gain on disposal	69	-	-	-	-	69
Gain on lease contract adjustments	-	-	-	-	95	95
Interest expense	-	-	-	-	(42,089)	(42,089)
Reversal of impairment loss	-	-	-	21,777	-	21,777
Total	₩ (8,374)	₩ 8,509	₩ (61,359)	₩ 137,361	₩ (41,994)	₩ 34,143
Other comprehensive income before tax:						
Net change in fair value	₩ -	₩ 14,360	₩ -	₩ -	₩ -	₩ 14,360

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

(g) Capital Management

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

The Group manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings and bonds, and the overall capital management policy is the same as the previous fiscal year. Details on the Group's capital structure as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)		2025		2024
Total borrowings and bonds	₩	1,785,979	₩	1,473,456
Less: Cash and cash equivalents		(913,503)		(1,135,968)
Less: Current other financial assets		(303,277)		(463,317)
Less: Current financial instruments measured at fair value through profit or loss		(61,431)		(244,941)
Net liabilities (net assets)	₩	507,768	₩	(370,770)
Total equity	₩	9,336,169	₩	9,358,465

30. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2025, the Group has 22 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 189,722 million. It is not possible to reasonably estimate the impact of the outcome of the pending litigation on the consolidated financial statements of the Group as of December 31, 2025.

(b) Commitments with financial institutions

Details of the Group's major commitments with financial institutions as of December 31, 2025 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank and one other	USD	211,200	68,055
Derivatives trading[1]	Hana Bank and six others	USD	243,451	27,249
Trade receivables factoring agreement	Hana Bank	KRW	5,000	153
Insurance Contract for Compensation of Consumer Damages in Sponsored Door-to-Door Sales	Korea Special Sales Financial Cooperative Association	KRW	546	-
Others	Korea Development Bank and six others	KRW	1,051,224	514,499
	Hana Bank Shanghai branch	CNY	10,000	10,000

[1] Derivatives are composed of foreign exchange forward contracts and are held for trading as of December 31, 2025.

As of December 31, 2025, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 183,923 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collateral

Details of payment guarantees and collateral provided by other parties to the Group as of December 31, 2025 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
Hana Bank	KRW	31,000	Payment guarantee for tobacco consumption tax
Korea Housing & Urban Guarantee Corporation	KRW	238,332	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	24,107	License guarantee, etc.
Unified Customs Guarantor JSC	RUB	3,000,000	Payment guarantee on customs
America Bank	USD	500	Trade receivables payment guarantee
Garanti Bank and one other	TRY	265,000	Payment guarantee on customs, etc.
Hana Bank	USD	7,500	Performance and tender guarantee related to exporting reconstituted tobacco leaves
Mastern Investment Management	KRW	116	Borrowings payment guarantee
Sberbank PAO and one other	RUB	4,000,000	Trade receivables payment guarantee

30. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2025, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 260,000 thousand), for import clearance. The Group has a recourse liability up to the limit of TWD 700,000 thousand to Citi Bank Taiwan.

Details of payment guarantees provided by the Group for other parties as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)

Guarantee user	Guaranteed by	2025		2024		Details of guarantee
		Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of ePyeonhansesang Daejeon Station Centum Vista	Hana Bank	₩ 8,000	3,019	8,000	1,774	Loan guarantee for the intermediate payment of off-plan sales construction[1]
Buyer of Digital Empire Pyeongchon Biz Valley	Hana Bank	66,960	30,544	9,960	4,046	Loan guarantee for the contract deposit and the intermediate payment of off-plan sales construction

1 The limit amount of the loan guarantee for the intermediate payment of off-plan sales construction excludes the portion of guarantees provided by Korea Housing & Urban Guarantee Corporation (80%).

30. Contingent Liabilities and Commitments (cont'd)

Details of assets pledged as collateral as of December 31, 2025 are as follows:

(in millions of Korean won)	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 80,710	₩ 47,500	₩ 75,600	Korea Development Bank and one other	Long term borrowings and limit loan
	20,219	25,500	39,000	Shinhan Bank and one other	Short-term borrowings
	28,125	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment property. etc.	204,261	17,820	19,562	BGF Retail Co.,Ltd., etc.	Establishment of right to collateral security on rent deposits/Establishment of lease contracts
	55,831	46,500	55,800	Mirae Asset Capital Co.,Ltd.	Current portion of long-term borrowings[1]
Other financial assets	100	100	100	Kyobo Book Center Co.,Ltd.	Establishment of a pledge for leasehold deposits
	37,880	45,829	37,880	Suwon City	Establishment of a pledge for suwon daeyupyeong district underpass
	600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Cash and cash equivalents	4,201	-	15,120	HHR Real Estate General Private Investment Company No.16	Payment restriction for the purpose of the sale of the Goyang Facilities for the Elderly and Child[2]
Financial assets at fair value through profit or loss	5,139	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
Total	₩ 437,066	₩ 183,249	₩ 251,462		

[1] As of December 31, 2025, 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.

[2] Comprehensive collateral has been established over the account designated to receive the deposit and intermediate payment from the sale of Goyang facility for the elderly and children, covering the expected intermediate payment amount.

30. Contingent Liabilities and Commitments (cont'd)

Details of restricted financial assets as of December 31, 2025 and 2024 are as follows:

(in millions of Korean won)		2025	2024
Cash and cash equivalents	Payment restriction for the purpose of the sale of the Goyang Facilities for the Elderly and Child	₩ 4,201	₩ -
Other financial assets	Establishment of a pledge for leasehold deposits	100	100
	Establishment of a pledge to guarantee real estate development	-	5,203
	Establishment of a pledge for suwon daeyupyeong district underpass	37,880	-
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	600
	Security deposits for checking accounts, etc.	4	4
	Payment guarantee on import customs	459	-
Financial assets at fair value through profit or loss	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	5,139	5,040
	Total	₩ 148,383	₩ 110,947

As of December 31, 2025, cash and cash equivalents and short-term financial instruments of ₩ 78,130 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 has not yet been incurred as of December 31, 2025 is ₩ 151,753 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 used for 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 ₩ 1,676,086 million in long-term deposits for MSA Escrow Fund as of December 31, 2025 (2024: ₩ 1,705,504 million), and they consist of US Treasury bond, and demand deposits. For the year ended December 31, 2025, refund of the funds that have been deposited for 25 years from the date of deposit was initiated.

The Group has entered into a contract with agronomists for green ginseng, where the Group is to purchase a determined volume of ginseng after 6 years from the date of contract; as of December 31, 2025, the Group recognizes the initial contract payment as long-term advance payments and current portion of long-term advance payment, in the amount of ₩ 89,863 million and ₩ 33,674 million, respectively (2024: ₩ 100,605 million and ₩ 35,206 million, respectively).

30. Contingent Liabilities and Commitments (cont'd)

The Group established Starfield Suwon Inc. after having established the joint venture with Shinsegae Property under 50:50 ratio in 2018. The disposal of the shares is limited for five years from the date Starfield Suwon's operation is approved. In the event that the Group or the joint investor wishes to transfer all of its shares, the other party may elect to exercise the right of first refusal and the tag-along right.

As of December 31, 2025, 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 year ended December 31, 2025 is ₩ 11,923 million.

The Group has entered into a contribution agreement for the debt instruments and associates of Mirae Asset KT&G Investment Fund I, KB KT&G New Growth Fund 1 and Smilegate New Deal Fund and others with the ceiling of ₩ 126,000 million and USD 37,000 thousand. As of December 31, 2025, the remaining contribution amount is ₩ 17,213 million and USD 12,819 thousand, and the detailed timeline for contribution has not been determined.

The Group has entered into a contribution agreement for equity instruments of Cheongna Medipolis PFV Co., Ltd., an associate, with the ceiling of ₩ 101,000 million. As of December 31, 2025, 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 unanimous consent of other shareholders upon disposal of the equity shares of Gwacheon Sangsang PFV. Inc. and Sangsang Loft Co., Ltd.

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.

The Parent Company has a joint disposal right to demand 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 Group dispose the shares by obtaining the approvals from the Board of Directors and Shareholders Meeting, the Parent Company has the right of first refusal to purchase the shares under the condition notified by those shareholders. However, the right of first refusal 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.

30. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2025, the Group is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contract (ePyeonhansesang Daejeon Station Centum Vista, etc.) proceed by the Group.

The Group is obligated to return infrastructure such as roads and neighboring parks to Suwon City for free related to sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district were completed in September 2023, additional expected costs due to fulfilment of infrastructure-related obligations were reflected in construction costs for the years ended December 31, 2025 and 2024 (see Note 22).

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 December 31, 2025, in relation to the ePyeonhansesang Daejeon Station Centum Vista sales project, the Group has agreed with the constructor (DL Construction Co., LTD.) to compensate for the debts incurred by the purchaser due to termination of the contract for reasons attributable to purchaser and failure to repay borrowings amounting to ₩ 5,861 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 by the Korea Commercial Arbitration Board in future to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in installment according to the completion rate until the point of completion. The construction was completed in 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of December 31, 2025.

For the year ended December 31, 2025, the Parent Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Cosmocos Co., Ltd. and KT&G Tutun Mamulleri Sanayi ve Ticaret A.S to provide operating funds and other management-related business support.

As of December 31, 2025, 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 investigation is underway. The Parent Company and KT&G USA Corporation cannot predict the ultimate outcome of the investigation and its impact as of December 31, 2025.

30. Contingent Liabilities and Commitments (cont'd)

The Parent Company is engaged in manufacturing and selling tobacco in Russia. As of December 31, 2025, the US and other countries have imposed the economic sanctions on Russia, including restrictions on SWIFT international payment network. The ultimate impact of such sanctions on the Group's business in Russia and its financial position therein cannot be reasonably estimated as of December 31, 2025.

The Group established ASF International Holding Company AB ("ASF") with Altria Ventures Inc. (the "joint investor") with an investment ratio of 51:49 during 2025. The disposal of such shares held by the Group and the joint investor is restricted for five years from the effective date of the share purchase agreement. After this restriction period, in the event that the Group or the joint investor intends to transfer its shares, the other party may choose to exercise the right of first refusal, the drag-along right, or the tag-along right. In addition, the Group has the right to purchase the joint investor's shares beginning four years after the closing date of the share purchase and new share subscription transactions, while the joint investor has the right to sell its shares to the Group beginning five years after the closing date. The Group added a financial liability of ₩ 160,560 million related to these rights to the acquisition cost of investments in joint ventures. In addition, under the shareholders' agreement, if certain events occur that result in a loss to the joint investor, the Group is required to ensure that such loss is first covered using ASF's surplus available for dividends. In case the surplus available for dividends is insufficient to fully cover the loss, the Group is obligated to make monetary payment to the joint investor for the uncovered loss amount, for up to the agreed amount specified in the shareholders' agreement. As of December 31, 2025, no such event has occurred, and it is not possible to reasonably estimate whether such an event will occur in the future or the amount thereof.

31. Cash Flows

(a) Details of cash generated from operations for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Profit for the year	₩ 1,102,316	₩ 1,164,999
Operating profit from continuing operations	1,103,081	1,172,136
Operating loss from discontinued operation	(765)	(7,137)
Adjustments:		
Employee welfare	6,650	21,343
Retirement and termination benefits	84,513	52,922
Loss on valuation or obsolescence of inventories	38,089	11,853
Depreciation	260,358	219,081
Amortization	32,309	31,179
Impairment loss (reversal of impairment loss) on trade and other receivables	273	(22,069)
Loss on foreign currency translation	130,970	50,158
Loss on valuation of derivatives	42,919	65,904
Loss on disposal of property, plant and equipment	1,487	587
Loss on impairment of property, plant and equipment	84,296	37,012
Loss on disposal of intangible assets	454	634
Loss on impairment of intangible assets	8,962	357
Loss on disposal of investment properties	1,288	403
Loss on impairment of investment properties	67	33,835
Loss on impairment of right-of-use assets	285	2,067
Loss on disposal of assets held for sale	537	196
Loss on impairment of assets held for sale	43,466	-
Loss on impairment of equity method investments	6	-
Loss on disposal of investments in subsidiaries	459	-
Other expenses, etc.	29,836	18,672
Finance cost	110,236	91,635
Share based payment expense	2,232	1,493
Income tax expense	352,210	393,803
Gain on foreign currency translation	(84,093)	(377,205)
Gain on valuation of derivatives	(37,956)	(4,545)
Gain on disposal of property, plant and equipment	(177,017)	(3,727)
Gain on disposal of intangible assets	(5)	(31)
Gain on disposal of right-of-use assets	(297)	-
Gain on disposal of investment property	(5,958)	(16,114)
Gain on dsposal of assets held for sale	(48,335)	(58,394)
Other income, etc.	(20,431)	(17,489)
Finance income	(147,968)	(165,266)
Increase of investments in associates and joint ventures due to share of net profit/loss	(39,286)	(19,232)

31. Cash Flows (cont'd)

(in millions of Korean won)	2025	2024
Changes in working capital:		
Increase in trade and other receivables	(120,770)	(12,835)
Increase in derivatives	(34,189)	(20,807)
Increase in inventories	(165,941)	(175,531)
Increase in accrued tobacco excise and other taxes	(74,287)	(84,462)
Increase in advance payments	(49,823)	(65,398)
Increase in prepaid expenses	(8,472)	(61,063)
Increase (decrease) in trade and other payables	(164,256)	32,866
Increase (decrease) in advance receipts	(40,165)	53,936
Increase (decrease) in tobacco excise and other taxes payable	(69,012)	12,220
Decrease in provision for site restoration	(77)	(103)
Decrease in net defined benefit liabilities	(76,746)	(44,221)
Cash flows from operations	₩ 969,134	₩ 1,148,663

(b) Material transactions without cash inflow and outflow for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Reclassification of property, plant and equipment to investment properties	₩ 18,732	₩ 8,090
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	592,760	311,913
Increase or decrease in other payable related to the acquisition of property, plant and equipment	39,596	(13,754)
Reclassification of investment properties to inventories	14,993	135,657
Increase in other payable related to the acquisition of investments in joint ventures	160,560	-

31. Cash Flows (cont'd)

(c) Changes in liabilities due to financing activities for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025			
	Beginning balance	**Cash flow from financing activities**	**Others**	**Ending balance**
Dividends payable	₩ -	₩ (603,832)	₩ 603,832	₩ -
Short-term borrowings (including current portion of long-term borrowings)	324,165	(99,819)	177,496	401,842
Long-term borrowings	213,968	78,160	(185,723)	106,405
Bonds	907,934	381,295	(52,137)	1,237,092
Convertible bonds	22,977	12,195	5,467	40,639
Lease liabilities	48,746	(29,611)	38,074	57,209
Total	₩ 1,517,790	₩ (261,612)	₩ 587,009	₩ 1,843,187

(in millions of Korean won)	2024			
	Beginning balance	**Cash flow from financing activities**	**Others**	**Ending balance**
Dividends payable	₩ -	₩ (586,620)	₩ 586,620	₩ -
Short-term borrowings (including current portion of long-term borrowings)	89,097	203,150	31,918	324,165
Long-term borrowings	147,671	96,415	(30,118)	213,968
Bonds	299,165	589,612	19,157	907,934
Convertible bonds	22,977	-	-	22,977
Lease liabilities	46,478	(26,439)	28,707	48,746
Total	₩ 605,388	₩ 276,118	₩ 636,284	₩ 1,517,790

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

32. Non-Controlling Interests

(a) For subsidiaries in which the Group holds a material portion of non-controlling interests, details of their profit or loss and net profit and accumulated non-controlling interests allocated to the Group's non-controlling interests for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025					
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Changes in scope of consolidation	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩ 45,551	₩ -	₩ (108)	₩ 376	₩ 45,819
Cosmocos Co., Ltd.	1.44	271	-	98	(8)	361
DNC Deogeun Co., Ltd.	-	73,473	(75,298)	1,825	-	-
Edntheinecentral Seocho	21.35	-	-	10,429	-	10,429
CENTRAL PHARM INC.[1]	49.99	-	-	-	-	-
Total		₩ 119,295	₩ (75,298)	₩ 12,244	₩ 368	₩ 56,609

[1] The non-controlling shareholders have the right to exercise the disposal of their shares for ten years from one year after the grant date of the put option. The Group has an obligation to purchase these shares. Therefore, the present value of the exercise price is measured as financial liabilities, and the non-controlling interest is derecognized.

(in millions of Korean won)	2024					
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Changes in scope of consolidation	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩ 45,470	₩ -	₩ 586	₩ (505)	₩ 45,551
Cosmocos Co., Ltd.	1.44	209	-	65	(3)	271
DNC Deogeun Co., Ltd.	61.75	73,027	-	446	-	73,473
Edntheinecentral Seocho	21.35	1,824	-	(1,824)	-	-
CENTRAL PHARM INC.[1]	49.99	-	-	-	-	-
Total		₩ 120,530	₩ -	₩ (727)	₩ (508)	₩ 119,295

[1] The non-controlling shareholders have the right to exercise the disposal of their shares for ten years from one year after the grant date of the put option. The Group has an obligation to purchase these shares. Therefore, the present value of the exercise price is measured as financial liabilities, and the non-controlling interest is derecognized.

(b) The condensed information on cash flows for subsidiaries in which the Group holds a material portion of non-controlling interests for each of the two years in the period ended December 31, 2025 is as follows:

(in millions of Korean won)	2025				
	Yungjin Pharm. Co., Ltd.	Cosmocos Co., Ltd.	DNC Deogeun Co., Ltd.	Edntheinecentral Seocho	CENTRAL PHARM INC.
Cash flows generated from operating activities	₩ 11,730	₩ 4,219	₩ 1,029	156,307	₩ (3,377)
Cash flows generated from investing activities	(11,861)	(878)	(2,487)	4	(76)
Cash flows generated from financing activities	25,122	(2,925)	824	(93,824)	915
Net increase (decrease) in cash and cash equivalents	₩ 24,991	₩ 416	₩ (634)	₩ 62,487	₩ (2,538)
Cash and cash equivalents on Jan. 1	3,436	7,668	16,258	65	-
Changes in scope of consolidation	-	-	(15,624)	-	2,746
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	-	-	-	-	(53)
Cash and cash equivalents on Dec. 31	₩ 28,427	₩ 8,084	₩ -	₩ 62,552	₩ 155

32. Non-Controlling Interests (cont'd)

(in millions of Korean won)	Yungjin Pharm. Co., Ltd.	Cosmocos Co., Ltd.	DNC Deogeun Co., Ltd.	Edntheinecentral Seocho	CENTRAL PHARM INC.
Cash flows generated from operating activities	₩ 21,741	₩ 8,372	₩ (20,872)	(15,391)	₩ -
Cash flows generated from investing activities	(18,302)	(2,212)	4,380	-	-
Cash flows generated from financing activities	(7,212)	(1,469)	5,520	15,317	-
Net increase (decrease) in cash and cash equivalents	₩ (3,773)	₩ 4,691	₩ (10,972)	₩ (74)	₩ -
Cash and cash equivalents on Jan. 1	7,208	2,962	27,230	139	-
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	1	15	-	-	-
Cash and cash equivalents on Dec. 31	₩ 3,436	₩ 7,668	₩ 16,258	₩ 65	₩ -

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

33. Assets Held for Sale and Discontinued Operations

(a) Changes in assets held for sale for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Beginning balance	₩ -	₩ -
Transfer and others[1]	182,142	78,612
Disposal	(97,378)	(78,612)
Impairment[2]	(43,466)	-
Ending balance	₩ 41,298	₩ -

[1] Consisting of ₩ 84,774 million of transfers from property, plant and equipment, ₩ 73,057 million of transfer from investment properties, and ₩ 24,310 million of transfer from investments in associates during the year ended December 31, 2025 (2024: ₩ 78,612 million of transfers from investment properties) (see Notes 9, 10 and 12).

[2] For the year ended December 31, 2025, ₩ 43,466 million of the carrying amount of assets held for sale that exceeding their recoverable amount was recognized as impairment loss.

(b) 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.

33. Assets Held for Sale and Discontinued Operations (cont'd)

① Details of profits or losses from discontinued operation for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025[1]	2024[1]
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(3,485)	(6,497)
Operating loss	(3,485)	(6,497)
Other income	3,210	1
Other expense	(709)	(682)
Finance income	233	155
Finance costs	-	-
Loss on discontinued operation, before tax	(751)	(7,023)
Income tax expense	(14)	(114)
Loss on discontinued operation, after tax	(765)	(7,137)
Exchange differences on translating foreign operations	(133)	(2,099)
Total comprehensive loss on discontinued operation	₩ (898)	₩ (9,236)

[1] Profits or losses from discontinued operation for each of the two years in the period ended December 31, 2025 are presented after eliminating the effects of intra-group transactions.

Profit or loss from discontinued operation for the years ended December 31, 2025 and 2024 is entirely attributed to the Parent Company.

② Details of cash flows from discontinued operation for each of the two years in the period ended December 31, 2025 are as follows:

(in millions of Korean won)	2025	2024
Cash flows generated from operating activities	₩ 7,106	₩ (4,782)
Cash flows generated from investing activities	149	125
Cash flows generated from financing activities	(1,073)	(971)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	(164)	1,433
	₩ 6,018	₩ (4,195)

34. Events After the Reporting Period

Sangsang Loft Co., Ltd., a joint venture of the Group, resolved to be dissolved at its shareholders' meeting on January 21, 2026, and the dissolution was registered on January 26, 2026.

On February 12, 2026, the Parent Company has retired 3,300,000 treasury shares based on the resolution of the Board of Directors on February 5, 2026.

The Parent Company disposed of 22,812 treasury shares for the purpose of paying the CEO's short-term performance bonus and partial treasury share payment as executive compensation based on the resolution of the Board of Directors on February 24, 2026.

In February 2026, the Parent Company signed a cash deficiency support for its subsidiaries, Tae-A Industry Co., Ltd., KT&G USA Corporation, Cosmocos Co., Ltd., and KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. to provide operating funds, debt repayment and other management-related business support.

On February 25, 2026, the Parent Company resolved at a meeting of its Board of Directors to adopt a plan for the holding and disposal of treasury shares in accordance with the amended Commercial Act, which includes the retirement of all 10,866,189 treasury shares currently held. The plan will become effective upon approval at the annual general meeting of shareholders on March 26, 2026, after which the retirement of shares procedures will be carried out pursuant to further resolutions of the Board of Directors in accordance with applicable laws and regulations.

Renzoluc Pte., Ltd., a subsidiary of the Parent Company, converted the Parent Company's holdings of its convertible preferred shares into 6,978,948 ordinary shares at a 1:1 conversion ratio pursuant to a resolution of the Board of Directors on February 26, 2026, and converted the dividends payable to the Parent Company into 6,139,313 ordinary shares.

Audit opinion on internal control over financial reporting

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") and the consolidated financial statements of the Group for the year ended December 31, 2025 in accordance with the Article 8 of the *Act on External Audit of Stock Companies.*

Attachments:

1. Independent auditor's report on internal control over financial reporting
2. ICFR Operating Evaluation Report by CEO

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Independent auditor's report on internal control over financial reporting

(English translation of a report originally issued in Korean)

KT&G Corporation
The Shareholders and Board of Directors

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting ("ICFR") of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") based on the *Conceptual Framework for Design and Operation of ICFR* established by the Operating Committee of ICFR in Korea (the "ICFR Committee") as of December 31, 2025.

In our opinion, the Group's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2025, in accordance with the *Conceptual Framework for Design and Operation of ICFR.*

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the consolidated statement of financial position as of December 31, 2025, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including material accounting policy information, of the Group, and our report dated March 4, 2026 expressed an unqualified opinion thereon.

Basis for opinion on ICFR

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

Responsibility of management and those charged with governance for ICFR

Management is responsible for designing, implementing and maintaining an effective ICFR, and for assessing the effectiveness of ICFR included in the accompanying ICFR Operating Evaluation Report by CEO.

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

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Auditor's responsibilities for the audit of ICFR

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

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

ICFR Definition and Inherent Limitations

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tae-hwan Kim.

Ernst & Young Han Young

March 4, 2026

This audit report is effective as of March 4, 2026, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the Group's ICFR and may result in modifications to this report.

ICFR Operating Evaluation Report by CEO (Consolidated)

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

We, as the Chief Executive Officer and the Internal Accounting Manager KT&G Company (the Company), evaluated the operating status of the Company's Internal Control over Consolidated Financial Reporting (ICFR) for the year ending December 31, 2025.

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

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

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee) as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Standards for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' Appendix 6 under Enforcement detailed guidelines of the regulations on external audit of stock companies.

Based on our evaluation, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2025, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

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

ICFR may not be able to detect or prevent material misstatements of financial statements that may arise due to intentional fraud due to inherent limitations of ICFR. Attachment of ICFR Operating Evaluation Report additionally describes the important internal controls that the company has designed and operated respond to the risks identified as fraud risks in the company's funds processes.

(Attachment)

- Internal control activities carried out by the company to respond to funds fraud risks such as embezzlement(Consolidated)

February 24, 2026

Kyung Man Bang

Chief Executive Officer

Yong Bum Kim

Internal Accounting Manager

(Attachment) Internal control activities carried out by the company to respond to funds fraud risks such as embezzlement(Consolidated)

The internal control activities disclosed in the attachment include only internal control activities related to direct deposits, withdrawals, and management of funds designed and operated to respond to the risk of fund fraud identified through the fraud risk assessment conducted by the company, and do not include all fund-related controls for financial reporting purposes.

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Entity Level Control	<Operation of Whistleblowing System> The Management establishes and operates an official system that allows company employees and external stakeholders to report fraud, such as embezzlement.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 7 other companies' ICFR Teams, Dec '25
	<Supervision through Internal Audit Department> The Management supervises the ICFR system and employee misconduct through the internal audit department.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 7 other companies' ICFR Teams, Dec '25
	<Risk Assessment through Regular Change Management> The Management identifies and assesses potential fraud risks and appropriately reflects them in the design of controls during the annual change management. In addition, it considers the design of controls when a fraud incident occurs.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '25, Jan '26
	<Establishment Segregation of Duties Standards> The Management establishes standards for segregation of duties to define appropriate authority and responsibilities, and assesses the adequacy of operations.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '25, Jan '26

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<System Setting for Fund Transfers> SAP Firm Banking transfers are configured in the system to be processed upon the approval of the Treasury(Finance) manager.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '25
	<Internet Banking Transfer Approval> Internet Banking transfers are processed through review and approval by the the head of the operating department and the Treasury (Finance, General Director, etc.) manager.	KT&G Global Rus, KT&G Kazakhstan LLP and 2 other companies	No material weaknesses were found. KT&G Global Rus and 2 other companies' ICFR teams, Korea Ginseng Corporation China's Finance Team, Sep/ Dec '25, Jan '26
	<Vendor Account Registration and Modification Approval> The head of the operating department and the bank account reviewer(Finance manager, Management manager, etc) verify and approve the information requested for registration/ modification in the system matches the details.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Dec '25, Jan '26
	<System Setting to Restrict Bank Account Entry> When preparing an expenditure slip, the system is configured to allow only pre-registered accounts to be entered.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '25

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<Automatic Slips Generation for Deposit/ Withdrawal> The system is configured to automatically generate deposit/ withdrawal slips for bank account transactions.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '25
	<Bank Account Balance Reconciliation and Approval> The Treasury(Finance) manager reconciles the daily system balance with the balance on the supporting documents received from the bank and then approves it.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Dec '25, Jan '26
	<Approval for Account Opening and Closing> The Treasury(Finance) manager reviews the reasons for account opening and closing and then approves it.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Dec '25, Jan '26
	<Approval of Financial Product Subscription/ Termination> The Treasury(Finance) manager reviews whether the detailed contents of slip match the supporting documents and then approves it.	KT&G Corporation, Korea Ginseng Corporation and 3 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Aug~Sep, Dec '25, Jan '26

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<Long-term Unused Bank Accounts Monitoring> The Treasury(Finance) manager checks the usage status of accounts held by the company that have no transactions in the current period and approves the results of the review.	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Jan '26
	<Control over Usage of Seal Stamping/OTPs> The Treasury(Finance, Management, etc) manager controls the physical access to a seal stamping and OTPs. When The Treasury(Finance, Management, etc) manager approves it, a sealing is permitted.	KT&G Corporation, Korea Ginseng Corporation and 3 other companies	No material weaknesses were found. KT&G Corporation and 3 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Dec '25, Jan '26
	<Approval of the Loan Agreement and Execution> The Treasury(Finance) manager reviews whether the detaild contents of slip match the detailed supporting documents and then approves it, obtaining Board of Directors' approval if necessary.	KT&G Corporation, Korea Ginseng Corporation and 3 other companies	No material weaknesses were found. KT&G Corporation and 3 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Dec '25, Jan '26
	<Approval of Corporate Bond Issuance Plan> The Head of the Finance Division(The Treasury Team manager) reviews the scale and timing of financing through corporate bonds and obtains approval from the Board of Directors.	KT&G Corporation, Youngjin Pharm. Co., Ltd.	No material weaknesses were found. KT&G Corporation and 1 other company's ICFR Teams, Aug~Sep, Dec '25, Jan '26

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<Approval of Corporate Bond Issuance> The Treasury manager reviews whether the detailed contents of slip match the detailed supporting documents and then approves it.	KT&G Corporation, Youngjin Pharm. Co., Ltd.	No material weaknesses were found. KT&G Corporation and 1 other company's ICFR Teams, Aug~Sep, Dec '25, Jan '26

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Independent auditor's report

(English translation of a report originally issued in Korean)

The Shareholders and Board of Directors
KT&G Corporation

Opinion

We have audited the consolidated financial statements of KT&G Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2024, and the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2024 in accordance with International Financial reporting Standards as adopted by the Republic of Korea ("KIFRS").

We have audited the Group's internal control over financial reporting ("ICFR") as of December 31, 2024 based on the Conceptual Framework for Design and Operation of ICFR established by the Operating Committee of ICFR in Korea, in accordance with Korean Standards on Auditing ("KSA"), and our report dated March 4, 2025, expressed an unqualified opinion thereon.

Basis for opinion

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

Key audit matter

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

Revenue recognition for the exported tobacco

The revenue from the exported tobacco for the year ended December 31, 2024 amounts to ₩ 941,864 million, accounting for 16% of the total revenue of the Group. As described in Note 2 to the consolidated financial statements, the Group recognizes revenue from the exported tobacco at a point when the control over the goods is transferred to the buyer, the transaction amount and costs related thereto can be reliably measured, and the inflow of economic benefits is probable.

Revenue from the exported tobacco is a significant factor affecting the Group's performance evaluation and financial performance. In addition, key judgment factors for revenue from the exported tobacco include the determination of the consideration to which the Group expects to be entitled for each contract arising from complex contract structures and various transaction forms, the assessment of the point at which the control is transferred, and the appropriateness of evaluation for the timing and amount of revenue recognition. Furthermore, due to the characteristics of the overseas tobacco business, such as dependency on specific customers, management is more likely to make significant judgments related to revenue recognition. These factors increase the risk of misstatements in the revenue recognition process.

Therefore, we have identified the occurrence of revenue related to the overseas tobacco business as a significant risk, and we have determined that significant attention by auditors is required for the recognition of revenue from the exported tobacco. As a result, we have selected this as a key audit matter for the current period.

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

- Ensure the compliance of the Group's accounting policies with the revenue standards in relation with revenue from the exported tobacco;
- Obtain an understanding of the internal controls related to the recognition of revenue from the exported tobacco and assess the effectiveness of the design and operation of the controls;
- Inquire about the reasons for increases or decreases in revenue from the exported tobacco by type, market, and item;
- Review the contracts with major customers for revenue from the exported tobacco to assess the point of control transfer and the appropriateness of gross/net accounting treatment according to the revenue standards;
- Examine documents, such as export documents, for selected samples to corroborate the occurrence and appropriateness of period attribution of revenue from the exported tobacco;
- Inspect documents for the selected sample transactions to verify the appropriateness of timing for recognizing revenue from the exported tobacco transactions occurring before and after the end of the reporting period;
- Analyze the correlation between revenue, trade receivables, and cash using data analysis techniques to review the occurrence of revenue from the exported tobacco;

- Perform independent confirmation procedures for trade receivables with major customers of the exported tobacco by sending and collecting confirmation letters;
- Check the occurrence of non-recurring sales discounts and rebates to assess the possibility of overstatement of revenue from the exported tobacco;
- Review the contracts for royalty sales and recalculate the royalty calculations; and
- Engage the fraud risk experts to perform testing on governance controls, category-specific checks, customer monitoring, and scenario-based checks related to revenue from the exported tobacco.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young Han Young

March 4, 2025

This report is effective as of March 4, 2025, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

KT&G Corporation and its subsidiaries

Consolidated financial statements

for each of the two years in the period ended December 31, 2024

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

Kyung-Man Bang
Chief Executive Officer
KT&G Corporation

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

KT&G Corporation and its subsidiaries

Consolidated statements of financial position

As of December 31, 2024 and 2023

(in millions of Korean won)	Notes	December 31, 2024	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents	5, 29, 30	₩ 1,135,968	₩ 1,031,953
Current other financial assets	5, 29, 30	463,317	294,103
Current financial assets at fair value through profit or loss	6, 29, 30	244,941	342,933
Trade and other receivables	7, 22, 28, 29	1,561,652	1,506,539
Derivative assets	29, 30	-	7,751
Inventories	8	3,101,313	2,763,769
Refund assets and others	18	6,161	820
Accrued tobacco excise and other taxes		404,017	324,366
Advance payments	30	124,642	79,451
Prepaid expenses		131,094	61,440
Current income tax assets	26	3,205	5,249
Total current assets		7,176,310	6,418,374
Non-current assets			
Long-term other financial assets	5, 29, 30	30,704	84,462
Long-term deposits in MSA Escrow Fund	29, 30	1,705,504	1,479,737
Long-term financial assets measured at fair value through profit or loss	6, 29	337,928	344,455
Long-term trade and other receivables	7, 28, 29	141,573	149,670
Long-term financial assets measured at fair value through other comprehensive income or loss	6, 29	211,693	233,058
Investments in associates and joint ventures	4, 9, 28, 30	482,349	471,327
Property, plant and equipment	4, 10, 30	2,664,382	2,096,467
Intangible assets	4, 11	179,681	175,028
Investment properties	4, 12, 30	761,154	1,018,434
Right-of-use assets	4, 13	50,498	49,029
Long-term advance payments	30	100,700	105,725
Long-term prepaid expenses		13,348	12,663
Deferred income tax assets	26	61,390	74,949
Net defined benefit assets	17	8,023	59,074
Total non-current assets		6,748,927	6,354,078
Total assets		₩ 13,925,237	₩ 12,772,452
Liabilities			
Current liabilities			
Short-term borrowings	14, 29, 30	₩ 287,975	₩ 61,576
Current portion of long-term borrowings	14, 29, 30	36,191	27,521
Current portion of bonds	15, 29	99,895	-
Current portion of convertible bonds	15, 29	27,388	-
Trade and other payables	16, 28, 29	1,680,023	1,684,673
Current lease liabilities	29, 31	20,881	18,702
Derivative liabilities		32,801	-
Advance receipts	22	65,312	17,203
Current refund liabilities and provisions	18, 31	39,080	33,213
Current income tax liabilities	26	197,831	191,016
Tobacco excise and other taxes payables		655,511	638,510
Total current liabilities		3,142,888	2,672,414
Non-current liabilities			
Long-term borrowings	14, 29, 30, 31	213,968	147,270
Long-term bonds	15, 29, 31	808,039	299,165
Long-term convertible bonds	15, 29, 31	-	23,378
Long-term trade and other payables	16, 17, 28, 29	81,836	58,390
Long-term lease liabilities	29, 31	27,865	27,776
Long-term advance receipts	22	9,385	4,177
Net defined benefit liabilities	17	42,575	36,038
Long-term refund liabilities and provisions	18, 31	7,623	5,117
Deferred income tax liabilities	26	225,521	185,971
Non-controlling interests liabilities	29	7,072	17,821
Total non-current liabilities		1,423,884	805,103
Total liabilities		₩ 4,566,772	₩ 3,477,517

KT&G Corporation and its subsidiaries

Consolidated statements of financial position, continued

As of December 31, 2024 and 2023

(in millions of Korean won)	Notes	December 31, 2024	December 31, 2023
Equity			
Share capital	19	₩ 954,959	₩ 954,959
Other capital surplus	19	5,944	4,946
Treasury shares	20	(1,030,541)	(1,236,933)
Gain on disposal of treasury shares	20	529,029	528,894
Reserves	19	7,175,263	7,230,300
Retained earnings	21	1,604,517	1,692,239
Equity attributable to owners of the Parent Company		9,239,171	9,174,405
Non-controlling interest	32	119,294	120,530
Total equity		₩ 9,358,465	₩ 9,294,935
Total liabilities and equity		₩ 13,925,237	₩ 12,772,452

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

KT&G Corporation and its subsidiaries

Consolidated statements of comprehensive income

For each of the two years in the period ended December 31, 2024

(in millions of Korean won)	Notes	2024	2023
Continuing operations			
Sales	4, 22, 28	₩ 5,908,792	₩ 5,862,608
Cost of sales	23, 28	(3,006,768)	(3,054,393)
Gross profit		2,902,024	2,808,215
Selling, general and administrative expense	23, 28	(1,713,210)	(1,640,879)
Operating profit		1,188,814	1,167,336
Other income	24, 28	573,737	201,551
Other expense	24, 28	(268,264)	(194,022)
Finance income	25, 29	165,266	138,936
Finance costs	25, 29	(91,635)	(67,814)
Share of net profit of associates and joint ventures	9	19,232	9,610
Loss arising from net monetary assets		(21,325)	(7,215)
Profit before income tax		1,565,825	1,248,382
Income tax expense	26	(393,689)	(318,836)
Profit from continuing operations		1,172,136	929,546
Discontinued operations			
Loss from discontinued operations	33	(7,137)	(7,185)
Profit for the year		₩ 1,164,999	₩ 922,361
Other comprehensive income (loss) for the year after income tax			
Items that will not be reclassified to profit or loss			
Re-measurements of net defined benefit liabilities	17	₩ (35,596)	₩ (31,954)
Gain on valuation of financial assets measured at fair value through other comprehensive income or loss	6, 29	9,753	19,629
Capital changes in equity method	9	(90)	(69)
Items that will be reclassified to profit or loss			
Exchange differences on translating foreign operations		56,847	(8,755)
Capital changes in equity method	9	(415)	(393)
		30,499	(21,542)
Total comprehensive income for the year		₩ 1,195,498	₩ 900,819
Profit for the year is attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 1,172,864	₩ 909,847
Loss from discontinued operations	33	(7,137)	(7,185)
Profit attributable to owners of the Parent Company		1,165,727	902,662
Non-controlling interests			
Profit (loss) from continuing operations		(728)	19,699
Profit (loss) from discontinued operations	33	-	-
Profit (loss) attributable to non-controlling interests		(728)	19,699
Total		₩ 1,164,999	₩ 922,361
Total comprehensive income (loss) for the year attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ 1,205,970	₩ 889,677
Loss from discontinued operations	33	(9,236)	(7,701)
Total comprehensive income attributable to owners of the Parent Company		1,196,734	881,976
Non-controlling interests			
Profit (loss) from continuing operations		(1,236)	18,843
Profit (loss) from discontinued operations	33	-	-
Total comprehensive income (loss) attributable to non-controlling interests		(1,236)	18,843
Total		₩ 1,195,498	₩ 900,819
Earnings per share			
Basic and diluted	27		
From continuing operations		₩ 11,383	₩ 7,905
From discontinued operations		(69)	(62)
		₩ 11,314	₩ 7,843

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

KT&G Corporation and its subsidiaries

Consolidated statements of changes in equity

For each of the two years in the period ended December 31, 2024

(in millions of Korean won)	Share capital	Other capital surplus	Treasury shares	Gain on disposal of treasury shares	Reserves	Retained earnings	Owners of the Parent	Non-controlling interest	Total
Balance as of January 1, 2023	₩ 954,959	₩ 4,498	₩ (1,236,933)	₩ 528,894	₩ 6,812,286	₩ 2,251,940	₩ 9,315,644	₩ 42,936	₩ 9,358,580
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	902,662	902,662	19,699	922,361
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(31,098)	(31,098)	(856)	(31,954)
Gain on valuation of financial asstes measured at fair value through other comprehensive income or loss	-	-	-	-	19,629	-	19,629	-	19,629
Exchange differences on translating foreign operations	-	-	-	-	(8,755)	-	(8,755)	-	(8,755)
Capital changes in equity method	-	-	-	-	(462)	-	(462)	-	(462)
Subtotal other comprehensive income (loss) for the period	-	-	-	-	10,412	(31,098)	(20,686)	(856)	(21,542)
Total comprehensive income (loss) for the year	-	-	-	-	10,412	871,564	881,976	18,843	900,819
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(720,935)	(720,935)	-	(720,935)
Transfer to other reserve	-	-	-	-	407,602	(407,602)	-	-	-
Acquisition of treasury shares	-	-	(302,728)	-	-	-	(302,728)	-	(302,728)
Retirement of treasury shares	-	-	302,728	-	-	(302,728)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	58,751	58,751
Share options	-	448	-	-	-	-	448	-	448
Total transactions with owners of the Company	-	448	-	-	407,602	(1,431,265)	(1,023,215)	58,751	(964,464)
Balance as of December 31, 2023	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,300	₩ 1,692,239	₩ 9,174,405	₩ 120,530	₩ 9,294,935
Balance as of January 1, 2024	₩ 954,959	₩ 4,946	₩ (1,236,933)	₩ 528,894	₩ 7,230,300	₩ 1,692,239	₩ 9,174,405	₩ 120,530	₩ 9,294,935
Total comprehensive income (loss) for the year									
Profit (loss) for the year	-	-	-	-	-	1,165,727	1,165,727	(728)	1,164,999
Other comprehensive income (loss) for the year:									
Re-measurements of net defined benefit liabilities	-	-	-	-	-	(35,084)	(35,084)	(512)	(35,596)
Gain on valuation of financial asstes measured at fair value through other comprehensive income or loss	-	-	-	-	9,753	-	9,753	-	9,753
Transfer from gain (loss) on disposal of financial assets at fair value through other comprehensive income to retained earnings	-	-	-	-	(12,988)	12,988	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	56,843	-	56,843	4	56,847
Capital changes in equity method	-	-	-	-	(505)	-	(505)	-	(505)
Subtotal other comprehensive income (loss) for the period	-	-	-	-	53,103	(22,096)	31,007	(508)	30,499
Total comprehensive income for the year	-	-	-	-	53,103	1,143,631	1,196,734	(1,236)	1,195,498
Transactions with owners of the Parent Company:									
Dividends	-	-	-	-	-	(586,620)	(586,620)	-	(586,620)
Transfer from other reserve	-	-	-	-	(108,140)	108,140	-	-	-
Acquisition of treasury shares	-	-	(546,841)	-	-	-	(546,841)	-	(546,841)
Retirement of treasury shares	-	-	752,873	-	-	(752,873)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-
Share options	-	998	360	135	-	-	1,493	-	1,493
Total transactions with owners of the Company	-	998	206,392	135	(108,140)	(1,231,353)	(1,131,968)	-	(1,131,968)
Balance as of December 31, 2024	₩ 954,959	₩ 5,944	₩ (1,030,541)	₩ 529,029	₩ 7,175,263	₩ 1,604,517	₩ 9,239,171	₩ 119,294	₩ 9,358,465

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

KT&G Corporation and its subsidiaries

Consolidated statements of cash flows

For each of the two years in the period ended December 31, 2024

(in millions of Korean won)	Notes	2024	2023
Net cash flows provided by operating activities		₩ 822,275	₩ 1,265,993
Cash generated from operations	31	1,148,663	1,646,282
Income taxes paid		(326,388)	(380,289)
Net cash flows used in investing activities		(529,726)	(848,296)
Interest received		81,367	55,856
Dividends received		22,200	27,515
Decrease in other financial assets		387,825	138,975
Decrease in current financial assets measured at fair value through profit or loss		135,420	403,273
Decrease in long-term financial assets measured at fair value through profit or loss		27,361	5,086
Decrease in long-term financial assets measured at fair value through other comprehensive income or loss		35,725	-
Disposal of property, plant and equipment		21,388	7,253
Disposal of intangible assets		1,991	1,035
Disposal of investment properties		22,029	9,526
Disposal of assets held for sale		137,169	372
Disposal of investments in associates and joint ventures		25,982	41
Receipt of government grant		-	332
Collection of loans		26,742	24,309
Collection of guarantee deposits		4,791	3,232
Increase in other financial assets		(502,494)	(276,186)
Increase in current financial assets measured at fair value through profit or loss		(37,224)	(300,950)
Increase in long-term financial assets measured at fair value through profit or loss		(39,469)	(62,038)
Increase in long-term deposits in MSA Escrow Fund		(68)	(1,635)
Acquisition of property, plant and equipment		(767,537)	(472,769)
Acquisition of intangible assets		(29,656)	(40,613)
Acquisition of investment properties		(11,517)	(22,392)
Acquisition of right-of-use assets		(3,149)	(1,440)
Acquisition of investments in associates and joint ventures		(21,742)	(191,978)
Increase in loans		(34,342)	(106,880)
Increase in guarantee deposits		(6,263)	(4,201)
Net cash outflows due to changes in scope of consolidation		(6,255)	(47,298)
Other increase in relation to investment properties		-	3,279
Net cash flows used in financing activities		(293,438)	(775,827)
Dividends paid		(586,620)	(776,434)
Interest paid		(43,369)	(25,407)
Repayment of lease liabilities		(24,342)	(23,849)
Acquisition of treasury shares		(546,841)	(302,728)
Repayment of borrowings		(1,427,658)	(1,823,639)
Proceeds in borrowings		1,727,223	1,847,311
Proceeds from issuance of bond		608,069	328,919
Increase in non-controlling interest liabilities		100	-
Net decrease in cash and cash equivalents		(889)	(358,130)
Cash and cash equivalents at the beginning of the year		1,031,953	1,401,018
Effect of exchange rate fluctuation on cash and cash equivalents		104,904	(10,935)
Cash and cash equivalents at the end of the year		₩ 1,135,968	₩ 1,031,953

"The accompanying notes are an integral part of the 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 December 31, 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 31, 2001 and October 17, 2002, respectively (each GDR represents the right to receive one-half ordinary share of the Parent Company). Then on June 25, 2009, the Parent Company changed the trading market for its GDRs from BdL Market to Euro MTF, both within the Luxembourg Stock Exchange.

1.1 Overview of the Parent Company (cont'd)

The Parent Company's major shareholders as of December 31, 2024 are as follows:

	Shares held (number of shares)	Percentage of ownership (%)
Industrial Bank of Korea	9,510,485	7.59
National Pension Service	8,894,501	7.10
Employee Share Ownership Association	5,048,916	4.03
Treasury shares	17,506,454	13.96
Others	84,402,141	67.32
	125,362,497	100.00

1.2 Consolidated Subsidiaries

Details of the Group's consolidated subsidiaries as of December 31, 2024 are as follows:

Controlling Company	Subsidiary	Principal operation	Percentage of ownership (%)[1]	Reporting date	Location
The Parent Company	Korea Ginseng Corporation	Manufacturing and selling ginseng	100.00	December 31, 2024	Korea
	Yungjin Pharm. Co., Ltd.	Manufacturing and selling pharmaceuticals	52.45	December 31, 2024	Korea
	Cosmocos Co., Ltd.	Manufacturing and selling cosmetics	98.56	December 31, 2024	Korea
	Tae-A Industrial Co., Ltd.	Manufacturing reconstituted tobacco leaves	100.00	December 31, 2024	Korea
	SangSang Stay Inc.	Hotel	100.00	December 31, 2024	Korea
	Renzoluc Pte., Ltd.	Holding company	100.00	December 31, 2024	Singapore
	KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Manufacturing and selling tobaccos	100.00	December 31, 2024	Turkiye
	KT&G Pars	Manufacturing and selling tobaccos	99.99	December 31, 2024	Iran
	KT&G Rus L.L.C.	Manufacturing and selling tobaccos	100.00	December 31, 2024	Russia
	KT&G Kazakhstan LLP	Manufacturing and selling tobaccos	100.00	December 31, 2024	Kazakhstan
	KT&G USA Corporation	Selling tobaccos	100.00	December 31, 2024	USA
	KT&G Global Rus L.L.C.	Selling tobaccos	100.00	December 31, 2024	Russia
	KT&G Taiwan Corporation	Selling tobaccos	100.00	December 31, 2024	Taiwan
	KT&G Global Kazakhstan LLP	Selling tobaccos	100.00	December 31, 2024	Kazakhstan
	Korea Tabacos do Brasil Ltda.	Assistance with purchasing tobacco leaf	99.99	December 31, 2024	Brazil
	Gwacheon SangSang PFV Inc.	Real estate development and sales business	51.00	December 31, 2024	Korea
	Mastern No.144 PFV Co., Ltd.	Real estate development and sales business	92.50	December 31, 2024	Korea
	DNC Deogeun Co., Ltd.[2]	Real estate development and sales business	38.25	December 31, 2024	Korea
	Edn the pine central Seocho Co., Ltd.	Real estate development and sales business	78.65	December 31, 2024	Korea
	Cheongna Medipolis Development Co., Ltd	Real estate service business	66.67	December 31, 2024	Korea
Korea Ginseng Corporation	KGCyebon Corporation	Manufacturing and selling medical herbs	100.00	December 31, 2024	Korea
	KGC Life & Gin Co., Ltd.	Selling ginseng, etc.	100.00	December 31, 2024	Korea
	CENTRAL PHARM INC.	Selling health functional food	50.01	December 31, 2024	Korea
	Jilin Hanzheng Ginseng Co., Ltd.	Manufacturing and selling ginseng, etc.	100.00	December 31, 2024	China
	Korea Ginseng (China) Corp.	Selling ginseng, etc.	100.00	December 31, 2024	China
	Korea Ginseng Corp. Japan	Selling ginseng, etc.	100.00	December 31, 2024	Japan
	Cheong Kwan Jang Taiwan Corporation	Selling ginseng, etc.	100.00	December 31, 2024	Taiwan
	Korean Red Ginseng Corp., Inc.	Selling ginseng, etc.	100.00	December 31, 2024	USA
CENTRAL PHARM INC.	Pacific 365, Inc	Selling health functional food	50.01	December 31, 2024	USA
Cosmocos Co., Ltd.	K&I China Co., Ltd.	Selling cosmetics, etc.	98.56	December 31, 2024	China
Renzoluc Pte., Ltd.	PT Trisakti Purwosari Makmur[3]	Manufacturing and selling tobaccos	99.99	December 31, 2024	Indonesia
PT Trisakti Purwosari Makmur	PT Nusantara Indah Makmur	Selling tobaccos	99.96	December 31, 2024	Indonesia
	PT TSPM FLAVOR AND FRAGRANCE	Selling tobaccos	99.99	December 31, 2024	Indonesia

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

[2] 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.

[3] A portion of shares in PT Trisakti Purwosari Makmur is held by the Parent Company.

1.2 Consolidated Subsidiaries (cont'd)

For the year ended December 31, 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 ₩ 137,913 million of KT&G Kazakhstan LLP.

For the year ended December 31, 2024, the Parent Company newly acquired Cheongna Medipolis Development Co., Ltd through capital investment of 40,000 shares (₩ 200 million).

For the year ended December 31, 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.

For the year ended December 31, 2024, Korea Ginseng Corporation, a subsidiary of the Parent Company, acquired 22,501 shares (₩ 9,000 million) of CENTRAL PHARM INC. through the acquisition of equity shares, and Pacific 365, Inc, a subsidiary of CENTRAL PHARM INC., has been included in the Parent Company's scope of consolidation.

For 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.

For 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.

For 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 preferred stocks with voting rights (₩ 35,000 million) of Edn the pine central Seocho Co., Ltd. through equity purchase.

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

1.3 Summarized Financial Information

Details of the summarized financial information[1] for consolidated subsidiaries as of and for the year ended December 31, 2024 are as follows:

(in millions of Korean won)

Subsidiary	2024				
	Total assets	Total liabilities	Revenue	Profit (loss) for year	Total comprehensive income (loss)
Korea Ginseng Corporation	₩ 2,588,268	₩ 252,519	₩ 1,105,195	₩ 66,009	₩ 38,461
Yungjin Pharm. Co., Ltd.	234,258	144,455	252,040	1,233	171
Tae-A Industry Co., Ltd.	109,874	28,325	39,629	(34,529)	(35,431)
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	208,008	78,256	46,180	(16,594)	(66,400)
Korea Tabacos do Brasil Ltda.	2,871	296	484	185	(107)
KT&G Pars	6	53,292	-	-	-
KT&G Rus L.L.C.	236,547	158,677	103,705	7,820	294
KT&G USA Corporation[2]	17,731	8,192	-	(7,137)	(9,236)
Cosmocos Co., Ltd.	49,866	31,102	94,231	4,699	4,207
Renzoluc Pte., Ltd.	138,906	42,104	293	(878)	(3,664)
SangSang Stay, Inc.	77,181	37,071	32,736	4,200	4,060
KT&G Global Rus L.L.C.	183,508	173,031	73,639	2,431	1,402
Gwacheon SangSang PFV. INC	22,794	13,671	-	(1,379)	(1,379)
KT&G Taiwan Corporation	32,309	17,438	30,039	3,212	4,113
Mastern No.144 PFV	62,132	48,384	2,979	(23,134)	(23,134)
KT&G Global Kazakhstan LLP	69,319	40,952	73,996	10,752	10,088
KT&G Kazakhstan LLP	232,065	62,610	-	685	(3,217)
DNC Deogeun Co., Ltd.	122,897	13,454	4,246	2,542	2,542
Edn the pine central Seocho Co., Ltd.	115,618	87,164	-	(8,819)	(8,819)
Cheongna Medipolis Development Co., Ltd	742	409	633	39	39
PT Trisakti Purwosari Makmur	939,748	685,442	504,425	55,800	73,950
PT Nusantara Indah Makmur	88	-	-	(1)	6
PT TSPM FLAVOR AND FRAGRANCE	42,736	7	-	143	2,191
KGCyebon Corporation	52,331	4,019	18,828	877	663
KGC Life & Gin Co., Ltd.	23,657	1,913	17,875	(1,305)	(1,293)
CENTRAL PHARM INC.	7,080	5,024	-	-	-
Jilin Hanzheng Ginseng Co., Ltd.	65,873	2,859	30,517	2,270	8,564
Cheong Kwan Jang Taiwan Corporation	24,065	7,263	33,023	474	1,530
Korean Red Ginseng Corp., Inc.	31,949	14,651	44,094	1,038	3,106
Korea Ginseng (China) Corp.	89,439	64,706	187,890	8,219	10,367
Korea Ginseng Corporation Japan	13,473	10,273	18,600	394	486
Pacific 365, Inc	281	1,401	-	-	(104)
K&I China Co., Ltd.	101	63	-	(191)	(456)

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

[2] The above financial information has been adjusted to reflect the effects of inventory returns within the Group.

1.3 Summarized Financial Information (cont'd)

Details of the summarized financial information[1] for consolidated subsidiaries as of and for the year ended December 31, 2023 are as follows:

(in millions of Korean won)

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

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

2. Material Accounting Policies

2.1 Basis of Preparation

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

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

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

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

· certain financial assets and financial liabilities (including derivatives);

· assets held for sale measured at fair value less cost to sell; and

· defined contribution plans and plan assets measured at fair value.

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

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

2.1 Basis of Preparation (cont'd)

Details of the price index used in the hyperinflationary economy where the Group's foreign operations are located as of December 31, 2024 are as follows:

(in percent)

Foreign operation	Country	Price Index	2024	2023
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkiye	TUIK CPI	44.37	64.78

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(1) New and amended standards 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 December 31, 2024, these amendments and interpretations do not have a material impact on the 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.

(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.

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

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

The amendments require an additional disclosure if an entity holds virtual assets, or holds virtual assets on behalf of the customer, or issues cryptographic assets.

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

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2024 reporting periods and have not been early adopted by the Group.

(a) Amendments to KIFRS 1021 The Effects of Changes in Foreign Exchange Rates and 1101 First-time Adoption of International Financial Reporting Standards – Lack of Exchangeability

When an entity estimates a spot exchange rate because exchangeability between two currencies is lacking, the entity shall disclose related information. The amendments should be applied for annual periods beginning on or after January 1, 2025, and earlier application is permitted.

(b) Amendments to KIFRS 1109 Financial Instruments, KIFRS 1107 Financial Instruments: Disclosures – Classification and measurement of Financial Instrument

KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures* have been amended to respond to recent questions arising in practice, and to include new requirements. The amendments should be applied for annual periods beginning on or after January 1, 2026, and earlier application is permitted. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures of impact on the entity and the extent to which the entity is exposed for each type of financial instruments if the timing or amount of contractual cash flow changes due to amendment of contract term; and
- update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

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

(c) Annual Improvements to KIFRS -Volume 11

The annual improvements to KIFRS -*Volume 11* has been issued to enhance consistency of requirements between standards, clarify ambiguous areas and improve understandability. Annual Improvements to KIFRS -*Volume 11* should be applied for annual periods beginning on or after January 1, 2026, and earlier application is permitted.

- KIFRS 1101 *First-time Adoption of International Financial Reporting Standards: Hedge accounting by a first-time adopter*
- KIFRS 1107 *Financial Instruments: Disclosures: Gain or loss on derecognition and implementation guidance*
- KIFRS 1109 *Financial Instruments: Derecognition of lease liabilities and definition of transaction price*
- KIFRS 1110 *Consolidated Financial Statements: Determination of a 'de facto agent'*
- KIFRS 1007 *Statement of Cash Flows: Cost method*

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

2.3 Material Accounting Policies

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

(1) Operating Segments

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

(2) Consolidation

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

2.3 Material Accounting Policies (cont'd)

(a) Subsidiaries

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

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

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

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

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

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

2.3 Material Accounting Policies (cont'd)

(b) Associates

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

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

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

(c) Business combinations under common control

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

(3) Joint Arrangements

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

2.3 Material Accounting Policies (cont'd)

(4) Property, Plant and Equipment

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

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

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

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

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

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

2.3 Material Accounting Policies (cont'd)

(5) Borrowing Costs

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

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

(6) Government Subsidies

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

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

2.3 Material Accounting Policies (cont'd)

(7) Intangible Assets

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

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

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

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

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

· it is technically feasible to complete the software so that it will be available for use;

· management intends to complete the software and use or sell it;

· there is an ability to use or sell the software;

· it can be demonstrated how the software will generate probable future economic benefits;

· adequate technical, financial and other resources to complete the development and to use to sell the software are available; and

· the expenditure attributable to the software during its development can be reliably measured.

2.3 Material Accounting Policies (cont'd)

(8) Investment Property

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

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

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

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

(9) Assets Held for Sale

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

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

2.3 Material Accounting Policies (cont'd)

(10) Inventories

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

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

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

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

(11) Impairment of Non-Financial Assets

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

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

2.3 Material Accounting Policies (cont'd)

(12) Financial Assets (Other than Derivative Instruments)

(a) Classification

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

· those to be measured at fair value through profit or loss;

· those to be measured at fair value through other comprehensive income; and

· those to be measured at amortized cost.

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

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

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

(b) Measurement

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

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

- Debt instruments

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

2.3 Material Accounting Policies (cont'd)

A. Financial assets measured at amortized cost

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

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

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

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

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

- Equity instruments

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

2.3 Material Accounting Policies (cont'd)

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

(c) Impairment

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

(d) Recognition and derecognition

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

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

(e) Offsetting of financial instruments

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

2.3 Material Accounting Policies (cont'd)

(13) Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

(14) Derivative Instruments

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

(15) Cash and Cash Equivalents

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

2.3 Material Accounting Policies (cont'd)

(16) Employee Benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

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

(c) Retirement benefits: Defined contribution plans

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

(d) Retirement benefits: Defined benefit plans

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

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

2.3 Material Accounting Policies (cont'd)

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

(e) Termination benefits

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

(17) Refund Liabilities and Provisions

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

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

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

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

(18) Paid-in Capital

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

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

2.3 Material Accounting Policies (cont'd)

(19) Revenue Recognition

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

(a) Sales of goods

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

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

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

(b) Rendering of services

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

2.3 Material Accounting Policies (cont'd)

(c) Sale of real estate

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

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

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

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

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

(d) Lease of real estate

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

(20) Finance Income and Finance Cost

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

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

2.3 Material Accounting Policies (cont'd)

(21) Income Tax Expense

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

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

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

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

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

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

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

2.3 Material Accounting Policies (cont'd)

(22) Functional and Presentation Currency

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

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

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

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

(23) Earnings per Share

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

2.3 Material Accounting Policies (cont'd)

(24) Lease

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

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

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

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

· fixed payments (including in-substance fixed payments), less any lease incentives receivable;

· variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

· amounts expected to be payable by the Group (the lessee) under residual value guarantees;

· the exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option; and

· payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option.

2.3 Material Accounting Policies (cont'd)

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

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

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

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

· the amount of the initial measurement of lease liability;

· any lease payments made at or before the commencement date less any lease incentives received;

· any initial direct costs; and

· estimated restoration costs.

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

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

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

2.3 Material Accounting Policies (cont'd)

(25) Emission Rights

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

(26) Share-based Payments

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

(27) Going Concern

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

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

2.3 Material Accounting Policies (cont'd)

(28) Discontinued Operations

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

· represents a separate major line of business or geographical area of operations;

· is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

· is a subsidiary acquired exclusively with a view to resale.

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

(29) Approval of Financial Statements

The consolidated financial statements of the Group have been approved by the Board of Directors on February 6, 2025, and may be modified under the approval to be made at the Annual General Meeting of Shareholders.

3. Material Accounting Estimates and Assumptions

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

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

(1) Impairment of CGUs

The Group determines whether to recognize an impairment loss on CGUs in accordance with KIFRS 1036 *Impairment of Assets*. When there is an indication of impairment of assets, the Group performs an impairment assessment by comparing the carrying amount of a CGU with the recoverable amount and the recoverable amount is affected by various assumptions used for the estimation as it is determined based on the estimation of the value-in-use or fair value less costs to sell (see Note 11).

(2) Total construction revenue and total construction cost

(a) Uncertainty of total contract revenue estimates

Total contract revenue is measured based on the initially agreed upon contract price, but measurement of contract revenue is affected by various uncertainties related to the outcome of future events, as it may increase or decrease depending on additional contracts, termination of the contract, etc. during the course of performing the contract. When the additional contract or contract termination is confirmed and the amount can be reliably measured, the Group includes it in contract revenue (see Note 22).

(b) Estimated total construction cost

The amount of construction revenue is affected by the percentage of completion based on the cumulative incurred contract cost, and the total contract cost is estimated based on future estimates such as material cost, labor cost and construction period, etc. (see Note 22)

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

(3) Climate-related risks

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

(a) Useful lives of property, plant and equipment

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

(b) Impairment of non-financial assets

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

(c) Fair value measurements

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

(d) Decommissioning liability

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

(e) Emission rights

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

4. Operating Segment

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

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

[1]During the year ended December 31, 2024, the Group reclassified Renzoluc Pte., Ltd. from Tobacco segment to Others and revised the comparable information.

(b) Details of segment information on sales and operating profit for each of two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 4,242,122	₩ 1,456,022	₩ 375,385	₩ 346,565	₩ 6,420,094	₩ (511,302)	₩ 5,908,792
Intersegment sales	(336,494)	(154,387)	(14,133)	(6,288)	(511,302)	511,302	-
External sales	3,905,628	1,301,635	361,252	340,277	5,908,792	-	5,908,792
Operating profit (loss)[1]	1,090,212	80,658	(433)	11,386	1,181,823	6,991	1,188,814
Depreciation and amortization	173,652	47,064	31,071	10,816	262,603	(12,344)	250,259

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

(in millions of Korean won)	2023						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Total segment sales	₩ 3,848,097	₩ 1,546,138	₩ 599,222	₩ 312,674	₩ 6,306,131	₩ (443,523)	₩ 5,862,608
Intersegment sales	(235,821)	(152,613)	(49,112)	(5,977)	(443,523)	443,523	-
External sales	3,612,276	1,393,525	550,110	306,697	5,862,608	-	5,862,608
Operating profit[1]	957,812	85,836	77,889	4,328	1,125,865	41,471	1,167,336
Depreciation and amortization	162,224	48,653	29,961	10,672	251,510	(10,437)	241,073

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

4. Operating Segment (cont'd)

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

(in millions of Korean won)		2024	2023
Revenue recognized at a point in time:			
Tobacco	Wholesale, retail	₩ 3,871,132	₩ 3,561,539
	Direct sales	34,496	50,737
Ginseng	Wholesale, retail	811,719	831,939
	Direct sales	489,916	561,586
Others	Wholesale, retail	337,947	304,607
	Direct sales	2,330	2,090
Real estate	Sales	24,930	79,864
	Subtotal	5,572,470	5,392,362
Revenue recognized over time:			
Real estate	Sales	226,116	367,491
	Rental	110,206	102,755
	Subtotal	336,322	470,246
	Total	₩ 5,908,792	₩ 5,862,608

(d) The segment information on assets and liabilities as of December 31, 2024 and 2023 is as follows:

(in millions of Korean won)	2024						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 8,011,681	₩ 2,256,568	₩ 1,282,788	₩ 388,786	₩ 11,939,823	₩ (2,994,042)	₩ 8,945,781
Investments in associates and joint ventures	-	-	458,891	23,458	482,349	-	482,349
Subtotal	₩ 8,011,681	₩ 2,256,568	₩ 1,741,679	₩ 412,244	₩ 12,422,172	₩ (2,994,042)	₩ 9,428,130
Common assets							4,497,107
Total assets							₩ 13,925,237
Acquisition of non-current assets	₩ 793,559	₩ 36,046	₩ 2,994	₩ 24,865	₩ 857,464	₩ 16	₩ 857,480
Liabilities:							
Segment liabilities	₩ 2,842,050	₩ 259,695	₩ 56,918	₩ 113,864	₩ 3,272,527	₩ (639,058)	₩ 2,633,469
Common liabilities							1,933,303
Total liabilities							₩ 4,566,772

(in millions of Korean won)	2023						
	Tobacco	Ginseng	Real estate	Others	Segment total	Adjustments	Consolidated
Assets:							
Segment assets	₩ 6,890,752	₩ 2,227,057	₩ 1,373,604	₩ 374,070	₩ 10,865,483	₩ (2,757,145)	₩ 8,108,338
Investments in associates and joint ventures	-	-	453,340	17,987	471,327	-	471,327
Subtotal	₩ 6,890,752	₩ 2,227,057	₩ 1,826,944	₩ 392,057	₩ 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	₩ 2,618,694	₩ 259,630	₩ 51,775	₩ 104,759	₩ 3,034,858	₩ (532,461)	₩ 2,502,397
Common liabilities							975,120
Total liabilities							₩ 3,477,517

4. Operating Segment (cont'd)

Common assets 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, deferred tax assets and others; common liabilities include borrowings, deferred tax liabilities and others.

(e) The segment information by region where a customer is located for each of the two years in the period ended December 31, 2024 is as follows:

(in millions of Korean won)	2024			2023		
	Korea	Overseas	Total	Korea	Overseas	Total
Sales	₩ 3,835,686	₩ 2,073,106	₩ 5,908,792	₩ 4,066,574	₩ 1,796,034	₩ 5,862,608
Non-current assets	3,063,369	592,346	3,655,715	3,116,373	222,585	3,338,958

The segment information classified as the above Overseas category is not separately disclosed based on the immateriality of sales and non-current assets of each country.

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

5. Cash and Cash Equivalents and Other Financial Assets

(a) Details of cash and cash equivalents as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Cash on hand	₩ 605	₩ 62
Demand deposits	915,914	848,899
Money Market trust	1	-
Others	219,448	182,992
Total	₩ 1,135,968	₩ 1,031,953

(b) Details of other financial assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Time deposits	₩ 333,315	₩ 702	₩ 264,103	₩ 4,035
Certificate of Deposit	80,000	-	30,000	-
Security deposits for checking accounts, etc.	50,002	30,002	-	80,427
Total	₩ 463,317	₩ 30,704	₩ 294,103	₩ 84,462

6. Financial Assets at Fair Value

(a) Details of financial assets measured at fair value through profit or loss as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Money Market Trust	₩ -	₩ 2,931	₩ -	₩ 4,380
MMF	223,352	-	295,258	-
Beneficiary certificate	21,589	334,997	47,675	340,075
Total	₩ 244,941	₩ 337,928	₩ 342,933	₩ 344,455

6. Financial Assets at Fair Value (cont'd)

(b) Details of financial assets measured at fair value through other comprehensive income as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Listed:		
YTN Co. Ltd.	₩ 25,727	₩ 50,447
Oscotech Inc.	-	12,170
Shinhan Financial Group Co., Ltd.	176,703	160,936
Subtotal	202,430	223,553
Unlisted	9,263	9,505
Total	₩ 211,693	₩ 233,058

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

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

(c) Changes in financial assets at measured fair value through profit or loss for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ 687,388	₩ 713,535
Acquisition	76,693	357,988
Changes in fair value	(18,500)	19,191
Disposal	(162,712)	(403,326)
Ending balance	₩ 582,869	₩ 687,388

(d) Changes in financial assets measured at fair value through other comprehensive income or loss for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ 233,058	₩ 206,494
Changes in fair value	14,360	26,564
Disposal, etc.	(35,725)	-
Ending balance	₩ 211,693	₩ 233,058

7. Trade and Other Receivables

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

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,363,208	₩ 8,451	₩ 1,328,580	₩ -
Loans	70,215	84,080	58,989	87,727
Other receivables	27,036	2,031	30,899	2,634
Guarantee deposits	78,851	46,960	72,146	59,201
Accrued income	22,342	51	15,925	108
Total	₩ 1,561,652	₩ 141,573	₩ 1,506,539	₩ 149,670

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

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Total carrying amount	₩ 1,603,358	₩ 141,660	₩ 1,570,234	₩ 150,147
Allowances:				
Trade receivables	(35,174)	-	(59,446)	-
Other receivables	(6,532)	(87)	(4,249)	(477)
Total allowances	(41,706)	(87)	(63,695)	(477)
Net trade and other receivables	₩ 1,561,652	₩ 141,573	₩ 1,506,539	₩ 149,670

(c) Changes in allowance for doubtful accounts for trade and other receivables for each of two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ 64,172	₩ 79,600
Reversal of impairment loss[1]	(22,069)	(13,202)
Write off	(4,690)	(387)
Net exchange differences	4,380	(1,839)
Ending balance	₩ 41,793	₩ 64,172

[1]Impairment losses (reversal of impairment loss) classified as profit or loss from discontinued operations of ₩ 292 million and ₩ (250) million are included for each of two years in the period ended December 31, 2024 and 2023, respectively.

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

8. Inventories

(a) Details of Inventories as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024			2023		
	Acquisition cost	Valuation loss allowance	Carrying amount	Acquisition cost	Valuation loss allowance	Carrying amount
Merchandise	₩ 65,557	₩ (8,037)	₩ 57,520	₩ 69,582	₩ (1,963)	₩ 67,619
Finished goods	411,380	(36,048)	375,332	352,918	(39,634)	313,284
Half-finished goods and work in progress	1,123,108	(2,559)	1,120,549	1,043,034	(3,032)	1,040,002
Raw materials	958,832	(3,458)	955,374	900,339	(5,084)	895,255
Supplies	89,360	-	89,360	69,117	-	69,117
By-products	8,800	-	8,800	9,328	-	9,328
Buildings under construction	99,144	-	99,144	20,938	-	20,938
Completed buildings	112,069	-	112,069	129,941	-	129,941
Sites for construction of real estate	212,657	-	212,657	129,633	-	129,633
Goods in transit	70,939	(431)	70,508	88,652	-	88,652
Total	₩ 3,151,846	₩ (50,533)	₩ 3,101,313	₩ 2,813,482	₩ (49,713)	₩ 2,763,769

(b) The amounts of loss (reversal) on valuation and obsolescence of inventories recognized for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Cost of sales:		
Reversal of loss on valuation of inventories	₩ (1,461)	₩ (1,588)
Loss on obsolescence of inventories	13,162	7,805
Other expense:		
Loss on obsolescence of inventories	152	2,121
Total	₩ 11,853	₩ 8,338

9. Investments in Associates and Joint Ventures

(a) Details of investments in associates and joint ventures as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)

Type	Name of entity	Location	Principal operation	Date of financial staements used	2024 Ownership (%)	2024 Carrying amount	2023 Ownership (%)	2023 Carrying amount
Associates	LitePharmTech Co., Ltd.[1]	Korea	Manufacturing medical supplies	Dec.31. 2024	12.53	₩ 4,185	12.53	₩ 4,123
	KORAMCO Banpo PFV Co., Ltd.[1,2]	Korea	Real estate investment, development and rental business	Dec.31. 2024	18.95	390	18.95	2,163
	KORAMCO Dongjak PFV Co., Ltd.[1]	Korea	Real estate investment, development and rental business	Dec.31. 2024	-	-	19.47	1,455
	KOCREF 36 REIT	Korea	Real estate investment, development and rental business	Dec.31. 2024	21.01	24,010	21.01	24,010
	KOCREF 41 REIT	Korea	Real estate investment, development and rental business	Dec.31. 2024	26.47	45,659	26.47	46,025
	AndaStation Professional Investment Private REIT No.1	Korea	Real estate investment, development and rental business	Dec.31. 2024	-	-	21.43	20,961
	Cheongna Medipolis PFV Co.,Ltd.[3]	Korea	Real estate development and sales	Dec.31. 2024	51.01	118,685	51.01	107,512
	INNODIS CO., Ltd.[1]	Korea	Game, advertising agency	Dec.31. 2024	19.64	408	19.64	393
	SJ BIO MED Co., Ltd.[1,4]	Korea	Manufacturing medical supplies	Dec.31. 2024	14.39	-	14.39	-
	LSK Global Pharma Service Co., Ltd.	Korea	Research and development of New medicine	Dec.31. 2024	21.92	-	21.92	-
	Mirae Asset KT&G Investment Fund I	Korea	Health Care, ESG, New business industry	Dec.31. 2024	50.00	16,055	50.00	10,473
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	Real estate development and rental business	Dec.31. 2024	35.00	108	35.00	104
	KB KT&G New Growth Fund 1[5]	Korea	Health Care, New business industry	Dec.31. 2024	66.67	2,812	66.67	2,998
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund[6]	Korea	Renting of real estate	Dec.31. 2024	51.35	9,122	51.35	10,568
	Starfield Suwon, Inc.	Korea	Real estate development and rental business	Dec.31. 2024	50.00	260,693	50.00	240,542
	SangSang Loft Co.,Ltd.	Korea	Real estate development and rental business	Dec.31. 2024	50.00	222	-	-
	Total					₩ 482,349		₩ 471,327

[1]The Group classified the ownership in the investees as investments in associate, notwithstanding its ownership percentage of less than 20%, as The Group determined it has a significant influence over the investees with its right to participate in the investees' Board of Directors meetings in accordance with the agreement with shareholders.

[2]As of December 31, 2024, the Group's investment in KORAMCO Banpo PFV Co., Ltd. is pledged as a collateral for a PF loan (see Note 30 (c)).

[3]The Group classified the ownership in the investee as an investment in associate as the three-fourths of the Board of Directors' consent is required in making decisions on material financial and operational policies of the investee in accordance with the agreement with shareholders.

[4]As of December 31, 2024, the liquidation procedures are in progress.

[5]Although the percentage of ownership in the investee exceeds 50%, the Group classified the ownership as an investment in associate as the Group does not have control over related activities and has significant influence through participating on investment decision-making authority.

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

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

(b) Details of financial information on the Group's associates and joint ventures are as follows:

(1) As of and for the year ended December 31, 2024

A. Summarized financial information

(in millions of Korean won)

Name of entity	2024					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	₩ 19,744	₩ 54,904	₩ 30,329	₩ 10,920	₩ 53,819	₩ 612
KORAMCO Banpo PFV Co., Ltd.	8,468	173,277	109,371	71,200	-	(9,261)
KOCREF 36 REIT	3,179	428,183	1,448	293,122	18,974	2,748
KOCREF 41 REIT	11,698	373,199	1,614	210,787	18,825	6,491
Cheongna Medipolis PFV Co.,Ltd.	155,167	16,695	4,088	-	-	(3,977)
INNODIS CO., Ltd.	2,033	6,900	2,329	4,529	5,722	82
Mirae Asset KT&G Investment Fund I	8,719	23,390	-	-	-	1,164
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	1,056	-	747	-	-	12
KB KT&G New Growth Fund 1	4,294	-	77	-	27	(280)
KORAMCO Europe Private REIT 3-2 Fund	3,576	111,940	5,917	91,259	6,296	(6,536)
Starfield Suwon, Inc.	112,384	895,552	241,015	245,534	104,785	13,807
SangSang Loft Co.,Ltd.	638	8	198	4	-	(196)

B. Additional financial information on joint ventures

(in millions of Korean won)

Name of entity	2024						
	Cash and cash equivalents	Current financial liabilities[1]	Non-current financial liabilities[1]	Depreciation expense	Interest income	Interest expense	Income tax
KORAMCO Europe Private REIT 3-2 Fund	₩ 2,619	₩ 1,137	₩ 89,902	₩ 3,608	₩ 178	₩ 4,240	₩ (151)
Starfield Suwon, Inc.	105,228	195,000	193,620	27,694	2,418	21,846	821
SangSang Loft Co.,Ltd.	638	-	-	-	-	-	-

[1]The amount excludes trade payables, other payables and provisions.

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

(2) As of and for the year ended December 31, 2023

A. Summarized financial information

(in millions of Korean won)

Name of entity	2023					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Total comprehensive income (loss)
LitePharmTech Co., Ltd.	₩ 14,958	₩ 53,142	₩ 17,404	₩ 17,790	₩ 47,899	₩ 1,201
KORAMCO Banpo PFV Co., Ltd.	4,003	129,966	40,736	82,700	-	(3,888)
KORAMCO Dongjak PFV Co., Ltd.	1,745	27,227	21,837	-	658	(1,014)
KOCREF 36 REIT	3,223	432,190	2,182	293,115	18,454	870
KOCREF 41 REIT	11,093	375,318	5,099	207,434	18,858	6,098
AndaStation Professional Investment Private REIT No.1	32,564	308,940	23,411	237,071	17,875	6,732
Cheongna Medipolis PFV Co.,Ltd.	188,434	-	16,682	-	-	(6,966)
INNODIS CO., Ltd.	2,253	6,739	3,351	3,641	6,161	(369)
Mirae Asset KT&G Investment Fund I	7,112	14,040	207	-	-	1,068
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	297	-	-	-	-	(3)
KB KT&G New Growth Fund 1	4,501	-	3	-	1	(3)
KORAMCO Europe Private REIT 3-2 Fund	2,241	108,227	3,200	85,161	5,890	(2,685)
Starfield Suwon, Inc.	99,334	847,178	27,740	437,690	375	(5,136)

B. Additional financial information on joint ventures

(in millions of Korean won)

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

[1]The amount excludes trade payables, other payables and provisions.

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

(c) Changes in investments in associates and joint ventures for each of the two years in the period ended December 31, 2024 are as follows:

(1) For the year ended December 31, 2024

(in millions of Korean won)

Name of entity	2024						
	Beginning balance	Acquisition	Disposal	Share of net profit (loss)	Dividends	Capital changes	Ending balance
LitePharmTech Co., Ltd.	₩ 4,123	₩ -	₩ -	₩ 64	₩ -	₩ (2)	₩ 4,185
KORAMCO Banpo PFV Co., Ltd.	2,163	-	-	(1,773)	-	-	390
KORAMCO Dongjak PFV Co., Ltd.	1,455	-	(2,244)	789	-	-	-
KOCREF 36 REIT	24,010	-	-	1,200	(1,200)	-	24,010
KOCREF 41 REIT	46,025	-	-	1,718	(2,084)	-	45,659
AndaStation Professional Investment Private REIT No.1	20,961	-	(23,738)	2,777	-	-	-
Cheongna Medipolis PFV Co.,Ltd.	107,512	-	-	11,173	-	-	118,685
INNODIS CO., Ltd.	393	-	-	15	-	-	408
Mirae Asset KT&G Investment Fund I	10,473	5,000	-	146	-	436	16,055
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	104	-	-	4	-	-	108
KB KT&G New Growth Fund 1	2,998	-	-	(186)	-	-	2,812
KORAMCO Europe Private REIT 3-2 Fund	10,568	1,422	-	(1,869)	-	(999)	9,122
Starfield Suwon, Inc.	240,542	15,000	-	5,272	-	(121)	260,693
SangSang Loft Co.,Ltd.	-	320	-	(98)	-	-	222
Total	₩ 471,327	₩ 21,742	₩ (25,982)	₩ 19,232	₩ (3,284)	₩ (686)	₩ 482,349

(2) For the year ended December 31, 2023

(in millions of Korean won)

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

[1]₩ 105 million effect of changes in scope of consolidation is included.

[2]Profits or losses arising from the additional acquisition of investments in associates and joint ventures are included.

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

(d) Reconciliations of the summarized financial information presented to the carrying amounts of the Group's investments in associates and joint ventures as of December 31, 2024 and 2023 are as follows:

(1) As of December 31, 2024

(in millions of Korean won)

Name of entity	2024				
	Net assets	Ownership (%)	Share of net assets[1]	Goodwill	Preferred stock effect	Carrying amount
LitePharmTech Co., Ltd.	₩ 33,399	12.53	₩ 4,185	₩ -	₩ -	₩ 4,185
KORAMCO Banpo PFV Co., Ltd.	1,174	18.95	223	167	-	390
KOCREF 36 REIT	136,792	21.01	28,740	-	(4,730)	24,010
KOCREF 41 REIT	172,496	26.47	45,659	-	-	45,659
Cheongna Medipolis PFV Co.,Ltd.	167,774	51.01	85,582	382	32,721	118,685
INNODIS CO., Ltd.	2,075	19.64	408	-	-	408
Mirae Asset KT&G Investment Fund I	32,109	50.00	16,055	-	-	16,055
JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	309	35.00	108	-	-	108
KB KT&G New Growth Fund 1	4,217	66.67	2,812	-	-	2,812
KORAMCO Europe Private REIT 3-2 Fund	18,340	51.35	9,122	-	-	9,122
Starfield Suwon, Inc.	521,387	50.00	260,693	-	-	260,693
SangSang Loft Co.,Ltd.	444	50.00	222	-	-	222

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

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

(2) As of December 31, 2023

(in millions of Korean won)

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

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

10. Property, Plant and Equipment

(a) Details of the carrying amount of property, plant and equipment as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)

	2024			2023		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 556,616	₩ -	₩ 556,616	₩ 527,210	₩ -	₩ 527,210
Buildings	1,306,167	(678,986)	627,181	1,224,786	(639,512)	585,274
Structures	84,846	(52,012)	32,834	84,190	(48,393)	35,797
Machinery	2,043,483	(1,410,530)	632,953	1,846,915	(1,313,344)	533,571
Vehicles	13,132	(7,795)	5,337	8,858	(6,844)	2,014
Tools	112,549	(82,622)	29,927	100,690	(73,015)	27,675
Equipment	198,357	(134,654)	63,703	187,037	(140,579)	46,458
Others	6,800	(947)	5,853	6,165	(786)	5,379
Construction in progress	732,329	(22,351)	709,978	333,103	(14)	333,089
Total	₩ 5,054,279	₩ (2,389,897)	₩ 2,664,382	₩ 4,318,954	₩ (2,222,487)	₩ 2,096,467

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

(b) Changes in property, plant and equipment for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment[2]	Reclassification, etc.[3]	Ending balance
Land	₩ 527,210	₩ 11,814	₩ (380)	₩ -	₩ -	₩ 17,972	₩ 556,616
Buildings	585,274	42,894	(965)	(34,121)	(45)	34,144	627,181
Structures	35,797	4,727	(35)	(3,385)	(29)	(4,241)	32,834
Machinery	533,571	78,166	(180)	(94,514)	(14,586)	130,496	632,953
Vehicles	2,014	4,372	(51)	(1,177)	-	179	5,337
Tools	27,675	14,656	(28)	(11,945)	-	(431)	29,927
Equipment	46,458	32,064	(281)	(21,275)	-	6,737	63,703
Others	5,379	631	-	(193)	-	36	5,853
Construction in progress	333,089	591,966	-	-	(22,351)	(192,726)	709,978
Total	₩ 2,096,467	₩ 781,290	₩ (1,920)	₩ (166,610)	₩ (37,011)	₩ (7,834)	₩ 2,664,382

[1]For the year ended December 31, 2024, ₩ 17,353 million of the borrowing costs capitalized for the items of property, plant and equipment that are qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 3.7%~9.4%.

[2]The Parent Company's subsidiary, Tae-A Industrial Co., Ltd., recognized an impairment loss of ₩ 36,006 million for the year ended December 31, 2024 based on the impairment test of property, plant, and equipment having resulted in an indication of possible impairment.

[3]Consists of ₩ 8,090 million of transfer to investment properties for the year ended December 31, 2024 (see Note 12).

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

[1]For the year ended December 31, 2023, ₩ 3,614 million of the borrowing costs capitalized for the items of property, plant and equipment that are qualifying assets are included. The rate used to calculate borrowing costs is 3.3%~5.4%.

[2]Consists of ₩ 33 million of transfers to inventories, ₩ 239 million of transfer to intangible assets and ₩ 13,722 million of transfers to investment properties for the year ended December 31, 2023 (see Notes 8, 11 and 12).

11. Intangible Assets

(a) Details of the carrying amount of intangible assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024			2023		
	Acquisition cost	Accumulated amortization and impairment	Carrying amount	Acquisition cost	Accumulated amortization and impairment	Carrying amount
Goodwill	₩ 111,393	₩ (108,093)	₩ 3,300	₩ 108,093	₩ (108,093)	₩ -
Industrial property rights	56,698	(16,944)	39,754	65,622	(37,121)	28,501
Facility usage rights	38,367	(138)	38,229	40,171	(395)	39,776
Intangible assets under development	35,650	(1,445)	34,205	34,145	(3,359)	30,786
Other intangible assets	263,391	(199,198)	64,193	245,689	(169,724)	75,965
Total	₩ 505,499	₩ (325,818)	₩ 179,681	₩ 493,720	₩ (318,692)	₩ 175,028

(b) Changes in intangible assets for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024							
	Beginning balance	Acquisition	Increase due to business combination[1]	Disposal	Amortization	Impairment	Reclassification, etc.	Ending balance
Goodwill	₩ -	₩ -	₩ 3,300	₩ -	₩ -	₩ -	₩ -	₩ 3,300
Industrial property rights	28,501	4,316	80	(508)	(1,022)	-	8,387	39,754
Facility usage rights	39,776	420	-	(1,894)	(35)	-	(38)	38,229
Intangible assets under development	30,786	16,542	-	(11)	-	(357)	(12,755)	34,205
Other intangible assets	75,965	9,509	4,795	(1,088)	(30,122)	-	5,134	64,193
Total	₩ 175,028	₩ 30,787	₩ 8,175	₩ (3,501)	₩ (31,179)	₩ (357)	₩ 728	₩ 179,681

[1]Changes due to business combination are included (see Note 34).

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

[1]Consists of ₩ 24 million which was reclassified to expense and ₩ 239 million which was reclassified from property, plant and equipment (see Note 10).

11. Intangible Assets (cont'd)

(c) Research and development expenditures recognized as expenses for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Cost of sales	₩ 2,171	₩ 3,793
Selling, general and administrative expenses	59,954	50,655
Total	₩ 62,125	₩ 54,448

(d) Impairment assessment on CGUs (including goodwill)

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

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

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

(in percent)	2023
Sales growth rate	12.44
Gross margin (% of revenue)	37.03
Operating income rate	8.87

[1] Annual average rate over the five-year forecast period.

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

(in percent)	2023
CGUs of the Indonesian tobacco business	11.70

11. Intangible Assets (cont'd)

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

(in millions of Korean won)	2023
Recoverable amount	206,989
Impairment loss recognized	-

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

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

(e) Individually significant intangible assets

Details of individually significant intangible assets other than goodwill as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)		Useful life	2024	2023
SAP system development	Intangible assets under development	-	₩ 249	₩ 134
	Other intangible assets	4 years	29,844	45,893
	Total		₩ 30,093	₩ 46,027

12. Investment Properties

(a) Details of investment properties as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024			2023		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 391,940	₩ (14,350)	₩ 377,590	₩ 449,549	₩ (1,029)	₩ 448,520
Buildings	606,785	(250,099)	356,686	655,624	(240,853)	414,771
Right-of-use assets	130	(96)	34	79	(46)	33
Construction in progress	26,844	-	26,844	155,110	-	155,110
Total	₩ 1,025,699	₩ (264,545)	₩ 761,154	₩ 1,260,362	₩ (241,928)	₩ 1,018,434

(b) Changes in investment properties for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024						
	Beginning balance	Acquisition[1]	Disposal	Depreciation	Impairment	Reclassification, etc.[2]	Ending balance
Land	₩ 448,520	₩ 806	₩ (5,089)	₩ -	₩ (13,321)	₩ (53,326)	₩ 377,590
Buildings	414,771	764	(1,329)	(23,131)	(20,514)	(13,875)	356,686
Right-of-use assets	33	-	-	(50)	-	51	34
Construction in progress	155,110	10,711	-	-	-	(138,977)	26,844
Total	₩ 1,018,434	₩ 12,281	₩ (6,418)	₩ (23,181)	₩ (33,835)	₩ (206,127)	₩ 761,154

[1]For the year ended December 31, 2024, ₩ 1,167 million of the borrowing costs capitalized for the investment properties that are qualifying assets are included. The rate used to calculate capitalizable borrowings costs is 4.0%~4.5%

[2]Consists of ₩ 135,657 million of transfers to inventories, ₩ 8,090 million of transfers from property, plant and equipment and ₩ 78,612 million of transfers to assets held for sale for the year ended December 31, 2024 (see Notes 8, 10 and 33).

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

[1]For the year ended December 31, 2023, ₩ 1,992 million of the borrowing costs capitalized for the investment properties that are qualifying assets are included. The rate used to calculate capitalizable borrowing costs is 4.4~4.8%.

[2]Consists of ₩ 56,959 million of transfers to inventories and ₩ 13,722 million of transfers from property, plant and equipment for the year ended December 31, 2023 (see Notes 8 and 10).

12. Investment Properties (cont'd)

(c) Details of profit or loss recognized related to the investment properties for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Rental income	₩ 77,962	₩ 75,721
Operating expenses	(29,306)	(24,511)
Total	₩ 48,656	₩ 51,210

(d) Details of the fair value and carrying amount of investment properties as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Fair value	Carrying amount	Fair value	Carrying amount
Land	₩ 1,128,639	₩ 377,590	₩ 1,213,219	₩ 447,273
Buildings	493,034	356,686	536,375	414,771
Right-of-use asset	34	34	33	33
Total	₩ 1,621,707	₩ 734,310	₩ 1,749,627	₩ 862,077

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

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

(in millions of Korean won)	Type	Carryng amount		Reason why fair value cannot be measured reliably
		2024	2023	
Hogye-dong development site[1]	Construction in progress	₩ -	₩ 134,847	Construction in progress
Donggwang-dong development site	Construction in progress	7,933	7,627	
Anyang-dong development site	Construction in progress	14,083	6,007	
Seongjeong-dong development site	Construction in progress	4,074	-	
Seoicheon development site	Construction in progress	754	754	
Gwacheon Sangsang Xi Tower	Land	-	1,247	
	Construction in progress	-	5,875	
		₩ 26,844	₩ 156,357	

[1]For the year ended December 31, 2024, Hogye-dong development sites were excluded as their use was changed to sale.

12. Investment Properties (cont'd)

(e) Details of operating lease

Investment properties were leased to lessees as an operating lease with contractual terms of monthly lease payments. For the year ended December 31, 2024, variable lease payment that is based on an index or a rate was ₩ 1,997 million. Even though the Group is exposed to the risk of changes in residual value at the end of the lease term, it would not realize the residual value immediately at the end of the lease term because it generally commits to a new operating lease contract. Expectations of future residual value will be reflected on the fair value of the investment property.

Details of future minimum lease payments that the Group expects to receive from operating lease contracts for the investment properties described above as of December 31, 2024 are as follows:

(in millions of Korean won)	2024			
	Within 1 year	More than 1 year ~ Within 5 years	More than 5 years	Total
Minimum lease payment	₩ 57,076	₩ 41,554	₩ 960	₩ 99,590

13. Right-of-use Assets

(a) Details of the carrying amount of right-of-use asset as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024			2023		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Land	₩ 7,455	₩ (2,004)	₩ 5,451	₩ 6,688	₩ (1,673)	₩ 5,015
Buildings	77,214	(44,251)	32,963	63,673	(32,911)	30,762
Vehicles	25,316	(13,308)	12,008	28,489	(15,237)	13,252
Others	93	(17)	76	-	-	-
Total	₩ 110,078	₩ (59,580)	₩ 50,498	₩ 98,850	₩ (49,821)	₩ 49,029

(b) Changes in right-of-use assets for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024						
	Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Others	Ending balance
Land	₩ 5,015	₩ 21	₩ -	₩ (144)	₩ -	₩ 559	₩ 5,451
Buildings	30,762	25,243	(1,403)	(20,472)	(2,067)	900	32,963
Machinery	-	59	-	(59)	-	-	-
Vehicles	13,252	7,610	(224)	(8,598)	-	(32)	12,008
Others	-	93	-	(17)	-	-	76
Total	₩ 49,029	₩ 33,026	₩ (1,627)	₩ (29,290)	₩ (2,067)	₩ 1,427	₩ 50,498

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

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

(c) The amounts recognized on the consolidated statements of comprehensive income related to lease for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Depreciation expense	₩ 29,290	₩ 27,580
Interest expense	2,097	1,477
Short-term lease expense	1,407	2,490
Lease payment for low-value assets	918	951
Variable lease expense	51,994	71,876
Loss on impairment of right-of-use assets	2,067	-
Loss (gain) on lease contract adjustments	587	(359)
Total	₩ 88,360	₩ 104,015

For the year ended December 31, 2024, total cash outflows related to leases amount to ₩ 80,758 million (₩ 100,644 million for the year ended December 31, 2023).

(d) Sale and leaseback

For the year ended December 31, 2024, the Group made a transaction for sale and leaseback of knowledge industry center in Gwacheon knowledge information town and rented the right-of-use assets to a third party for asset-backed securitization and to improve financial structure.

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

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

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

Details of amount recognized from sale and leaseback transaction for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Increase in right-of-use assets	₩ -	₩ 3,483
Increase in lease liabilities	-	5,522
Decrease in inventories	-	15,191
Gain arising from sale and leaseback[1]	-	9,504
Recorgnizing loss on impairment of right-of-use assets	2,067	-

[1] Gain arising from sale and leaseback transactions has been reflected in sales for the year ended December 31, 2023.

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

For each of the two years in the period ended December 31, 2024, the Group has recognized, because of sublease, ₩ 118 million and ₩ 20 million of lease revenue, respectively.

14. Borrowings

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

(in millions of Korean won)	Lender	Annual interest rate (%)	2024	2023
Borrowings		FTP(1 year)+1.08	₩ -	₩ 3,000
	Hana Bank	FTP(6 months)+0.612	3,000	-
		FTP(6 months)+0.69	200,000	-
	Hana Bank Bahrain branch	CME Term SOFR (3 months)+1.2	-	5,764
	Hana Bank Shanghai branch	LPR(1 year)-0.50	6,539	-
	KB Kookmin Bank	5.50	-	37,504
		MOR (6 months)+1.22	50,000	-
	Shinhan Bank	Financial Debenture (6 months)+0.25	10,000	-
		Financial 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		287,539	61,076
Others	Others	4.60~18.00	436	500
	Total		₩ 287,975	₩ 61,576

14. Borrowings (cont'd)

(b) The current portion of long-term borrowings and long-term borrowings as of December 31, 2024 and 2023 is as follows:

(in millions of Korean won)	Lender	Maturity	Annual interest rate (%)	2024	2023
Other financial loan for working capital[1]	NH Nonghyup Bank	2025.06.22~ 2027.06.20	-	₩ 26,210	₩ 38,990
Financial agricultural mid-term loan[1]	NH Nonghyup Bank	2028.07.19~ 2029.07.24	-	32,377	14,162
Borrowings	NH Nonghyup Bank	2028.11.21	3.00	11,370	11,060
		2028.12.27	3.00	9,646	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	3,518	-
	Korea Development Bank	2025.06.23	Industrial Financial Debenture (1 year)+0.66	2,500	7,500
		2025.12.02	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	45,843	-
	IM Bank	2027.05.30	MOR(6 months) +2.18	3,492	-
	Shinhan Bank	2026.05.21	6.50	11,292	3,708
	Shinhan Card Co., Ltd.	2026.05.21	Financial Debenture (3 years)+1.99	19,674	6,488
	NH Investment & Securities Co., Ltd.	2026.05.21	6.50	14,425	13,904
	OK Savings Bank	2026.05.21	9.00	8,174	7,879
	Korea Investment Savings Bank	2026.05.21	9.00	7,213	6,952
	JT Chinae Savings Bank	2026.05.21	9.00	6,732	6,488
	The-K Savings Bank	2026.05.21	9.00	4,808	4,635
	BNK Savings Bank	2026.05.21	9.00	4,808	4,635
	Choeun Savings Bank	2026.05.21	9.00	2,885	2,781
	Insung Savings Bank	2026.05.21	9.00	1,923	1,854
	Incheon savings bank	2026.05.21	9.00	1,923	1,854
	Woori Bank	2027.09.27	2.82	275	-
Others	Others	2025.10.04~ 2025.10.30	4.60	1,071	-
	Total			₩ 250,159	₩ 174,791
Consolidated statements of financial position:					
Current				36,191	27,521
Non-current				213,968	147,270
	Total			₩ 250,159	₩ 174,791

[1]The above loans are Contractual Cultivation Fund for Ginseng-Integration Project provided as the policy fund for facilitating agriculture, forestry and fisheries sector by the Ministry of Agriculture, Food and Rural Affairs of the Republic of Korea. Therefore, the interest rate on the loan is 0%, and the amount of present value discounts is recognized as Government grants after calculating the present value.

14. Borrowings (cont'd)

(c) As discussed in Note 30 to the consolidated financial statements, the Group is providing collateral for the above borrowings.

15. Bond

(a) Details of bond as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	Issuance date	Maturity	Annual interest rate (%)	2024	2023
2-1st non-guarantee public bonds	2023.09.13	2025.09.12	4.180	₩ 100,000	₩ 100,000
2-2nd non-guarantee public bonds	2023.09.13	2026.09.11	4.322	200,000	200,000
3-1st non-guarantee public bonds	2024.04.25	2026.04.24	3.624	50,000	-
3-2nd non-guarantee public bonds	2024.04.25	2027.04.23	3.763	150,000	-
3-3rd non-guarantee public bonds	2024.04.25	2029.04.25	3.808	100,000	-
4-1st non-guarantee public bonds	2024.10.08	2026.10.08	3.218	80,000	-
4-2nd non-guarantee public bonds	2024.10.08	2027.10.08	3.306	160,000	-
4-3rd non-guarantee public bonds	2024.10.08	2029.10.08	3.335	70,000	-
	Subtotal			910,000	300,000
	Discount			(2,066)	(835)
	Total			₩ 907,934	₩ 299,165
Current				₩ 99,895	₩ -
Non-current				808,039	299,165
	Total			₩ 907,934	₩ 299,165

(b) Convertible bonds

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

(in millions of Korean won)	2024	2023
Face value	₩ 30,300	₩ 30,300
Redemption premium	1,233	1,234
Conversion right adjustment	(4,145)	(8,156)
Total	₩ 27,388	₩ 23,378
Current	₩ 27,388	₩ -
Non-current	-	23,378
Total	₩ 27,388	₩ 23,378

15. Bond (cont'd)

Details of issuance condition of convertible bonds issued by the Group as of December 31, 2024 are as follows:

Classification	Details
Type and name	1st unregistered non-guarantee private convertible bond
Underwriter	Korea Investment & Securities Co., Ltd. and 13 other underwriters
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	-

16. Trade and Other Payables

Details of trade and other payables as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 24,800	₩ 11,695	₩ 24,582	₩ 14,642
Trade payables	352,239	-	260,725	-
Withholdings	13,263	-	11,412	-
Value-added deposit	172,283	-	196,110	-
Accrued expenses	429,855	63,457	374,267	43,748
Other payables	687,583	6,684	817,577	-
Total	₩ 1,680,023	₩ 81,836	₩ 1,684,673	₩ 58,390

17. Employee Benefits

(a) Details of profit or loss recognized related to employee benefits for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Defined benefit plans:		
Current service cost	₩ 49,006	₩ 45,547
Net interest on net defined benefit liabilities (assets)	(478)	(2,343)
Past service cost and loss on settlement	4,395	(204)
Subtotal	52,923	43,000
Defined contribution plan:		
Contributions recognized as expense	8,482	6,653
Other long-term employee benefits:		
Current service cost, etc.	22,489	10,019
Termination benefits:		
Voluntary retirements, etc.	3,374	2,448
Total	₩ 87,268	₩ 62,120

17. Employee Benefits (cont'd)

(b) Changes in net defined benefit liabilities (assets) for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ (23,036)	₩ (77,210)
Current service cost	49,006	45,547
Net interest on net defined benefit assets	(478)	(2,343)
Past service cost and any loss on settlement	4,395	(204)
Remeasurment of net defined liabilities (assets), before taxes	47,605	42,504
Payment amount	(10,101)	(2,817)
Payment of plan assets	(33,805)	(28,616)
Increase due to business combination	15	-
Net exchange differences	951	103
Ending balance	₩ 34,552	₩ (23,036)
Consolidated statements of financial positions:		
Present value of defined benefit obligations	₩ 635,837	₩ 580,538
Fair value of plan assets	(601,285)	(603,574)
Total	₩ 34,552	₩ (23,036)

(c) Changes in the present value of defined benefit obligation for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ 580,538	₩ 520,980
Current service cost	49,006	45,547
Interest expenses	23,490	26,256
Past service cost and any loss on settlement	4,395	(204)
Remeasurement before taxes	49,796	43,474
Payment amount	(72,354)	(55,617)
Increase due to business combination	15	-
Net exchange differences	951	102
Ending balance	₩ 635,837	₩ 580,538

17. Employee Benefits (cont'd)

(d) Changes in fair value of plan assets for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Beginning balance	₩	603,574	₩	598,190
Interest income		23,968		28,599
Remeasurement before taxes		2,191		969
Payment amount		(62,253)		(52,800)
Payment of plan assets		33,805		28,616
Ending balance	₩	601,285	₩	603,574

The actual amount of interest income arising from plan assets for each of the two years in the period ended December 31, 2024 is ₩ 26,159 million and ₩ 29,568 million, respectively.

(e) Changes in the present value of other long-term employee benefits for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Beginning balance	₩	45,686	₩	38,458
Current service cost		4,717		4,128
Past service cost		9,528		2,805
Interest cost		1,875		1,854
Remeasurement element		6,368		1,232
Payment amount		(4,453)		(2,795)
Net exchange differences		36		4
Ending balance	₩	63,757	₩	45,686

17. Employee Benefits (cont'd)

(f) Detail of remeasurements recognized in other comprehensive income or loss for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Actuarial gains and losses on defined benefit obligations:		
Changes in demographic assumptions	₩ 414	₩ 359
Changes in financial assumptions	(35,402)	(33,444)
Experience adjustments	(14,808)	(10,388)
	₩ (49,796)	₩ (43,473)
Revenue from plan assets, excluding amounts included in net interest	₩ 2,191	₩ 969
Remeasurement of net defined liabilities (assets), before taxes	(47,605)	(42,504)
Tax effect	12,009	10,550
Remeasurement of net defined liabilities (assets), after taxes	₩ (35,596)	₩ (31,954)

(g) The fair values of each of the major types included in the fair value of plan assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Regular deposits and cash equivalents	₩ 192,768	₩ 169,012
Principal and interest guarantee financial assets, etc.	408,517	434,562
Total	₩ 601,285	₩ 603,574

(h) The major assumptions used for actuarial evaluation as of December 31, 2024 and 2023 are as follows:

(in percentage)	2024	2023
Discount rate	3.33 ~ 23.00	3.96 ~ 25.05
Expected wage increase rate	3.00 ~ 20.00	3.00 ~ 20.82

To calculate the present value of the defined benefit obligation, the Group decided the discount rate by referring to the market rate of return on high-quality corporate bonds consistent with the currency and the expected payment period of the defined benefit obligation as of December 31, 2024.

17. Employee Benefits (cont'd)

(i) The sensitivity analysis results for the defined benefit obligation in relation to the major actuarial assumptions as of December 31, 2024 and 2023 is as follows:

(in millions of Korean won)	Increase by 1%	Decrease by 1%
Changes in discount rate	(54,898)	63,236
Changes in expected wage increase rate	63,429	(55,736)

The increase (decrease) in defined benefit obligations was calculated based on the present value of the defined benefit obligations as of December 31, 2024.

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

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

A reasonable estimate of the expected contribution related to the defined benefit plan during the year 2025 is ₩ 49,307 million.

The weighted average maturities of the defined benefit obligation as of December 31, 2024 and 2023 are 7.41 years and 7.32 years, respectively.

18. Refund Liabilities and Provisions

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

(in millions of Korean won)	2024		2023	
	Current	Non-current	Current	Non-current
Provision for product warranty	₩ 6,194	₩ -	₩ 1,780	₩ -
Refund liabilities	13,925	6,917	12,901	4,409
Provision for site restoration	1,561	679	1,537	680
Provision for financial guarantee	7	25	18	26
Provision for greenhouse gases	13	-	51	-
Provision for others	17,380	2	16,926	2
Total	₩ 39,080	₩ 7,623	₩ 33,213	₩ 5,117

(b) Changes in refund liabilities and provisions for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024			
	Beginning balance	Increase	Decrease	Ending balance
Provision for product warranty	₩ 1,780	₩ 10,189	₩ (5,775)	₩ 6,194
Refund liabilities	17,310	19,839	(16,307)	20,842
Provision for site restoration	2,217	305	(282)	2,240
Provision for financial guarantee	44	87	(99)	32
Provision for greenhouse gases	51	-	(38)	13
Provision for others	16,928	1,194	(740)	17,382
Total	₩ 38,330	₩ 31,614	₩ (23,241)	₩ 46,703

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

18. Refund Liabilities and Provisions (cont'd)

(c) For returnable sales, the Group sets up refund liabilities and refund assets by estimating the expected returnable amount at the time of sales, deducting the sales and cost of sales of the parts expected to be returned. The refund assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Refund assets	₩ 1,273	₩ 820

(d) The Group sets up provision for product warranties by estimating the expected warranty amount at the time of selling the next generation device products. The amount of warranty reimbursement assets as of December 31, 2024 is ₩ 4,888 million.

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

(f) The Group's provision for financial guarantee is recognized by estimating the amounts of joint guarantees for down and mid payment loan provided to the buyer related to the off-plan sales construction of ePyeonhansesang Daejeon station Centum Vista and Digital Empire Pyeongchon Biz Valley.

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

19. Share Capital, Other Capital Surplus and Reserves

(a) Details of share capital and other capital surplus as of December 31, 2024 and 2023 are as follows:

(in shares and millions of Korean won)	2024	2023
Number of authorized shares	800,000,000 shares	800,000,000 shares
Amount per share *(in won)*	₩ 5,000	₩ 5,000
Issued	125,362,497 shares	133,822,497 shares
Share capital	954,959	954,959
Other capital surplus	5,944	4,946

As 65,629,400 shares (including 8,460,000 shares for the year ended December 31, 2024) of the Parent Company have been written off to provide additional profit to its shareholders, there is a difference of ₩ 328,147 million between the total face value of the share capital and the shares issued.

(b) Share-based payments

As of December 31, 2024, the Group has share-based payments agreements that grants shares to its directors and selected employees based on a number of times of the approvals from shareholders at the annual general meetings and board of directors.

Details of equity-settled share-based payments granted to directors and selected employees as of December 31, 2024 are as follows:

(in shares and millions of Korean won, except amout of shares granted)

	2021.03.20 Performance condition share-based payments	2024.03.28 Performance condition share-based payments	2024.03.28 Restricted Stock Units ("RSU")
Granted stocks	Stock of KT&G Corporation	Stock of KT&G Corporation	Stock of KT&G Corporation
Grant method	Distributing treasury stock	Distributing treasury stock	Restricted Stock Units ("RSU")
Number of shares granted[1]	6,120 shares	15,157 shares	11,906 shares
Amount of shares granted (in won)[2]	80,948	90,713	90,713
Total grant amount	495	1,374	1,080
Vesting conditions	When exceeding a certain score in the long-term management evaluation the Group requires	When exceeding a certain score in the short-term management evaluation the Group requires	When exceeding a certain score in the long-term management evaluation the Group requires
Exercisable period	Within 14 days after the confirmation of the performance evaluation results (In February, 2024)	Within 14 days after the confirmation of the performance evaluation results (In February, 2025)	1 year, 2 years, and 3 years from the grant date regardless of employment status

[1]It presents the number of shares granted when the management evaluation score is the average of the score range.

[2]Applying the weighted average stock price of the three-month period of the first year of the term.

19. Share Capital, Other Capital Surplus and Reserves (cont'd)

Changes in equity-settled share-based payments for each of the two years in the period ended December 31, 2024 are as follows:

(in shares)	2024	2023
Beginning balance	6,120	6,120
Grant	27,063	-
Exercise	(6,120)	-
Ending balance	27,063	6,120

Details of share-based payments recognized as expense for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Equity-settled	₩ 1,493	₩ 158

(c) Details of reserves as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Profit reserve	₩ 602,937	₩ 602,937
Reserve for business rationalization	12,851	12,851
Reserve for business expansion	698,881	698,881
Other reserve	5,864,058	5,972,199
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss	(16,878)	(13,643)
Exchange differences on translating foreign operations	14,457	(42,387)
Capital changes in equity method	(1,043)	(538)
Total	₩ 7,175,263	₩ 7,230,300

19. Share Capital, Other Capital Surplus and Reserves (cont'd)

① Profit reserve

The commercial law stipulates that The Group shall set aside more than 10% of the profit dividends from the money as profit reserve at every settlement of accounts until it reaches 50% of the capital. The profit reserve cannot be distributed in cash and can be used only for the maintenance of carrying forward losses and capital transfer by resolution at the general meeting of shareholders. As of the December 31, 2024 and 2023, the profit reserve set aside in excess of 50% of the Parent Company's share capital is ₩ 125,457 million.

② Reserve for business rationalization

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

③ Reserve for business expansion and other reserve

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

(d) Details of gains and losses on valuation of fair value through other comprehensive income or loss as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)		2024		2023
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss before tax	₩	(23,692)	₩	(20,405)
Tax effect		6,814		6,762
Loss on valuation of financial assets measured at fair value through other comprehensive income or loss after tax	₩	(16,878)	₩	(13,643)

20. Treasury Shares and Gain on disposal of Treasury Shares

Details of treasury shares and gains on disposal of treasury shares as of December 31, 2024 and 2023 are as follows:

(in shares and millions of Korean won)		2024		2023
Number of treasury shares		17,506,454 shares		21,012,574 shares
Treasury shares	₩	(1,030,541)	₩	(1,236,933)
Gain on disposal of treasury shares		529,029		528,894

Changes in the number of treasury shares for each of the two years in the period ended December 31, 2024 are as follows:

(in shares)	2024	2023
Beginning balance	21,012,574	21,012,574
Acquisition of treasury shares	4,960,000	3,470,000
Retirement of treasury shares	(8,460,000)	(3,470,000)
Disposal of treasury shares	(6,120)	-
Ending balance	17,506,454	21,012,574

The Group has acquired 4,960,000 treasury shares for the year ended December 31, 2024 (3,470,000 treasury shares for the year ended December 31, 2023) through a transaction on exchange and retired the all treasury shares acquired, with a profit.

21. Retained Earnings

Changes in retained earnings for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Beginning balance	₩	1,692,239	₩	2,251,940
Dividends		(586,620)		(720,935)
Transfer to (from) other reserve		108,140		(407,602)
Retirement of treasury shares		(752,873)		(302,728)
Profit for the year		1,164,999		922,361
Less: Non-controlling interests		728		(19,699)
Transfer of gain on disposal of financial assets measured at fair value through other comprehensive income or loss to retained earnings		12,988		-
Remeasurements of net defined benefit liabilities (after tax)		(35,596)		(31,954)
Less: non-controlling interests (after tax)		512		856
Ending balance	₩	1,604,517	₩	1,692,239

22. Real Estate Pre-sales Contract

(a) Details of ongoing real estate pre-sales contracts for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)

Construction project	Initial sales contract date	Expected completion date	Progress (%)	2024				
				Total sales value[1]	Total sales contract value	Revenue (cumulative)[2]	Revenue (period)[3]	Cost (cumulative)[4]
Suwon hwaseo prugio briciel	June 2020	September 2023	100.00	₩ 803,056	₩ 747,970	₩ 747,946	₩ -	₩ 338,101
ePyeonhansesang Daejeon Station Centum Vista	December 2022	June 2026	62.07	226,951	193,218	119,573	55,189	100,482
Nokbeon-dong Mixed-Use apartment building	April 2023	March 2025	89.24	29,720	25,220	22,507	13,624	14,777
Elif Mia Station Complex 1	May 2023	August 2026	41.72	61,562	44,907	18,649	11,420	14,099
Elif Mia Station Complex 2	May 2023	August 2026	39.18	155,141	109,162	42,650	24,562	31,600
ePyeonhansesang Pyeongchon Urban Valley	April 2024	October 2026	25.39	399,869	397,970	100,933	100,933	61,913
Digital Empire Pyeongchon Biz Valley	April 2024	March 2027	24.32	352,768	98,001	20,388	20,388	16,540
Gwacheon sangsang Xi tower B	January 2021	May 2023	100.00	266,691	239,568	232,962	-	138,460
Goyang Hyangdong district knowledge industry center[5]	March 2021	July 2023	100.00	541,142	502,711	482,560	-	313,982
	Total			₩ 2,836,900	₩ 2,358,727	₩ 1,788,168	₩ 226,116	₩ 1,029,954

[1]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.

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

[3]Excludes the revenue of ₩ 24,930 million recognized as sales at a point when the construction is completed and control of the goods is transferred to the customer for the year ended December 31, 2024.

[4]Excludes cumulative costs of ₩ 293,284 million for common infrastructure (see Note 30 (d)).

[5]As of December 31, 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.

22. Real Estate Pre-sales Contract (cont'd)

(in millions of Korean won)

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

[1]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.

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

[3]Excludes cumulative costs of ₩ 227,608 million for common infrastructure (see Note 30 (d)).

[4]Revenue for the year ended December 31, 2023 excludes the amount of revenues incurred before the Group's acquisition of control over DNC Deogeun Co., Ltd.

22. Real Estate Pre-sales Contract (cont'd)

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

(in millions of Korean won)

Construction project	2024			
	Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon hwaseo prugio briciel	₩ 747,946	₩ 747,361	₩ 587	₩ 2
ePyeonhansesang Daejeon Station Centum Vista	119,573	30,048	90,240	715
Nokbeon-dong Mixed-Use apartment building	22,507	12,610	9,897	-
Elif Mia Station Complex 1	18,649	5,339	13,396	86
Elif Mia Station Complex 2	42,650	13,131	29,736	217
ePyeonhansesang Pyeongchon Urban Valley	100,933	47,906	53,284	257
Digital Empire Pyeongchon Biz Valley	20,388	6,352	14,036	-
Gwacheon sangsang Xi tower B	232,962	232,962	-	-
Goyang Hyangdong district knowledge industry center	482,560	482,560	-	-
Total	₩ 1,788,168	₩ 1,578,269	₩ 211,176	₩ 1,277

[1]As of December 31, 2024, due from customers for contract assets is ₩ 200,870 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

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

22. Real Estate Pre-sales Contract (cont'd)

(in millions of Korean won)

Construction project	2023 Revenue (cumulative)	Cash collected (cumulative)	Trade receivables for sale in lots[1]	Advanced receipts for sale in lots[2]
Suwon hwaseo prugio briciel	₩ 747,946	₩ 708,687	₩ 39,500	₩ 241
ePyeonhansesang Daejeon Station Centum Vista	64,384	23,852	41,250	718
Nokbeon-dong Mixed-Use apartment 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

[1]As of December 31, 2023, due from customers for contract assets is ₩ 58,406 million, and it will be reclassified to receivables in accordance with the billing schedule on the contract.

[2]Includes advances receipts 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 has occurred during the year ended December 31, 2024. Estimated total contract revenue and total contract cost of the ongoing real estate pre-sales contracts are based on the circumstances that have occurred until December 31, 2024 and subject to change in the future.

(d) Details of receivables and payables in relation to real estate pre-sales contracts recognized at a point in time as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)

Construction project	2024 Trade receivables for sale in lots	Advanced receipts for sale in lots[1]	2023 Trade receivables for sale in lots	Advanced receipts for sale in lots[1]
Suwon hwaseo prugio briciel	₩ -	₩ 806	₩ -	₩ 1,465
ePyeonhansesang Daejeon Station Centum Vista	-	105	-	93
Elif Mia Station Complex 1	-	575	-	322
Elif Mia Station Complex 2	-	4,332	-	666
Sangbong Station Ubora First Live and Four Square	9,549	131	6,626	774
Goyang Hyangdong district knowledge industry center	-	433	-	-
Total	₩ 9,549	₩ 6,382	₩ 6,626	₩ 3,320

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

22. Real Estate Pre-sales Contract (cont'd)

(e) Advanced receipts for sale in lots are a contract liability arising from a contract with a customer. The amount recognized as revenue in the 2024 in relation to contract liabilities as of January 1, 2024, is ₩ 1,063 million, and the amount recognized as revenue in the 2023 in relation to contract liabilities as of January 1, 2023, is ₩ 7,851 million.

(f) As of December 31, 2024, the trade receivables for sale in lots were classified as current receivables as they were expected to be realized within the normal operating cycle, but the amount expected to be realized after 12 months as of December 31, 2024 is ₩ 127,668 million.

23. Operating Expenses

(a) Details of expenses classified by nature, incurred for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Changes in inventories	₩ (337,544)	₩ (82,018)
Raw materials etc. used and merchandise purchased	1,915,128	1,697,321
Salaries	794,688	740,091
Retirement and termination benefits	64,779	52,101
Depreciation	219,080	210,840
Amortization	31,179	30,233
Employee welfare	153,983	124,438
Advertising	341,302	307,481
Commissions	599,612	615,619
Other expenses	937,771	999,166
Total	₩ 4,719,978	₩ 4,695,272

23. Operating Expenses (cont'd)

(b) Details of selling, general and administrative expenses for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Salaries	₩ 518,273	₩ 492,341
Retirement and termination benefits	42,691	33,940
Employee welfare	107,301	82,767
Travel expenses	25,078	23,222
Communication cost	6,437	5,899
Utilities	15,429	15,536
Taxes and dues	34,328	28,225
Supplies	6,473	6,811
Rent	17,397	18,669
Depreciation	62,120	59,996
Amortization	23,517	24,801
Repairs and maintenance	11,296	9,867
Vehicles	7,379	7,112
Insurance	3,807	3,589
Commissions	363,094	402,082
Freight and custody	72,992	68,232
Conferences	5,686	5,070
Advertising	341,229	307,362
Education and training	8,061	7,964
Prizes and rewards	3,125	2,501
Cooperation	1,436	1,265
Research and development	59,954	50,655
Reversal of impairment loss on trade receivables	(23,893)	(17,027)
Total	₩ 1,713,210	₩ 1,640,879

24. Other Income and Expense

(a) Details of other income for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Gain on foreign currency transaction	₩ 91,934	₩ 65,319
Gain on foreign currency translation	377,205	94,191
Gain on valuation of derivatives	4,545	13,901
Gain on disposal of property, plant and equipment	3,727	4,515
Gain on disposal of intangible assets	31	3
Gain on disposal of investment property	16,114	7,333
Gain on lease contract adjustments	240	367
Gain on disposal of equity method investments	-	9
Gain on disposal of assets held for sale	58,394	-
Gain on disposal of right-of-use assets	-	2
Miscellaneous income	21,547	15,911
Total	₩ 573,737	₩ 201,551

(b) Details of other expense for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Loss on foreign currency transaction	₩ 55,285	₩ 37,246
Loss on foreign currency translation	50,158	98,696
Loss on valuation of derivatives	65,904	21,214
Loss on impairment of other receivables	2,116	3,576
Loss on disposal of property, plant and equipment	587	3,230
Loss on impairment of property, plant and equipment	37,012	9,633
Loss on disposal of right-of-use assets	-	167
Loss on impairment of right-of-use assets	2,067	-
Loss on disposal of intangible assets	634	392
Loss on impairment of intangible assets	357	826
Loss on impairment of investment properties	33,835	-
Loss on disposal of investment properties	403	86
Loss on disposal of assets held for sale	196	-
Donations	9,886	7,062
Loss on lease contract adjustments	145	25
Miscellaneous loss	9,679	11,869
Total	₩ 268,264	₩ 194,022

25. Finance Income and Costs

(a) Details of finance income and costs for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Finance income:				
Interest income[1]	₩	115,584	₩	74,685
Dividend income		18,566		23,092
Gain on valuation of financial assets at fair value through profit or loss		31,047		41,126
Gain on disposal of financial instruments		69		33
Total finance income	₩	165,266	₩	138,936
Finance costs:				
Interest expense	₩	42,089	₩	45,706
Loss on valuation of financial assets at fair value through profit or loss		49,546		21,936
Other finance costs		-		172
Total finance costs	₩	91,635	₩	67,814
Net finance income	₩	73,631	₩	71,122

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

(b) Details of interest income included in finance income for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Deposits	₩	54,092	₩	35,555
Trade and other receivables		7,776		4,192
Long-term deposits		53,679		34,863
Others		37		75
Total	₩	115,584	₩	74,685

25. Finance Income and Costs (cont'd)

(c) Details of interest expenses included in finance costs for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Borrowings and debentures	₩ 23,349	₩ 8,995
Trade and other payables	11,363	6,189
Lease liabilities	2,097	1,477
Others	5,280	29,045
Total[1]	₩ 42,089	₩ 45,706

[1] ₩ 14,119 million and ₩ 5,606 million of capitalized borrowing costs on qualifying assets are excluded from interest expense for each of the two years in the period ended December 31, 2024, respectively.

26. Income Tax Expense and Deferred Tax Asset

(a) Details of income tax expenses elements for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Current tax on profits for the year	₩ 348,396	₩ 343,242
Adjustments with respect to past income taxes, etc.	(21,056)	(5,464)
Increase/decrease from temporary differences	65,170	(12,341)
Effects of income tax on non-recirculation income	1,293	(6,601)
Income tax	₩ 393,803	₩ 318,836
Income tax expense from continuing operations	₩ 393,689	318,836
Income tax expense from discontinued operations	114	-

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

(b) Details of the relationship between income tax expenses and accounting profit for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Profit before income tax expense	₩ 1,565,825	₩ 1,234,012
Tax rate (%)	24.18	25.97
Tax expense at domestic rates applicable to profits in the respective countries	378,644	320,457
Adjustments:		
Non-taxable income	(5,294)	(3,604)
Expenses not deductible for tax purposes	8,851	2,230
Changes in unrecognized amount of deferred tax due to temporary differences, etc.	30,597	17,176
Tax credit	(729)	(16,309)
Adjustments with respect to past income taxes	(21,056)	(5,464)
Effects of corporate earnings circulation tax	1,293	(6,601)
Others	1,383	10,951
Income tax expense from continuing operations	₩ 393,689	₩ 318,836
Average effective tax rate (%)	25.14	25.84

(c) Details of current and deferred income tax related to items recognized outside profit or loss for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Current tax:		
Capital changes in equity method	₩ 181	₩ 166
Consideration for conversion right	-	(1,436)
Subtotal	₩ 181	₩ (1,270)
Deferred tax:		
Gain (loss) on valuation of financial assets measured at fair value through other comprehensive income or loss	₩ 52	₩ (6,936)
Remeasurement of net defined liabilities (assets)	12,009	10,550
Subtotal	₩ 12,061	₩ 3,614
Total	₩ 12,242	₩ 2,344

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

(d) Changes in deferred income tax assets (liabilities) for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)

	2024			
	Beginning balance	Profit or loss	Other comprehensive income(loss) and others	Ending balance
Accumulated depreciation	₩ 33,266	₩ (5,711)	₩ -	₩ 27,555
Loss allowance	52,135	(17,967)	-	34,168
Financial assets measured at fair value through other comprehensive income (profit or loss)	6,520	3,090	52	9,662
Accrued expenses	66,031	135	-	66,166
Defined benefit liabilities	23,255	2,873	12,009	38,137
Treasury shares	(9,034)	-	-	(9,034)
Investments in subsidiaries	(280,470)	1,782	-	(278,688)
Advanced depreciation provision	(9,603)	-	-	(9,603)
Others	6,878	(49,372)	-	(42,494)
Total	₩ (111,022)	₩ (65,170)	₩ 12,061	₩ (164,131)

(in millions of Korean won)

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

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

(e) Details of deductible temporary differences, unused tax losses, and unused tax credit not recognized as deferred tax assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024	2023
Deductible temporary differences	₩ 667,442	₩ 561,818
Unused tax losses	111,622	121,745
Unused tax credit	3,664	3,185
Total	₩ 782,728	₩ 686,748

(f) The expiry periods for net operating losses not recognized as deferred tax assets as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Unused tax losses	Unused tax credits	Unused tax losses	Unused tax credits
Within 1 year	₩ 10,521	₩ 303	₩ 19,032	₩ 251
1 ~ 2 years	16,462	255	6,990	52
2 ~ 3 years	18,455	-	17,473	161
Over 3 years	66,184	3,106	78,250	2,721
Total	₩ 111,622	₩ 3,664	₩ 121,745	₩ 3,185

(g) As of December 31, 2024 and 2023, temporary differences to be added in relation to investments in subsidiaries and associates, and equity investments in joint ventures that are not recognized as deferred tax liabilities is ₩ 1,399,500 million as of December 31, 2024 (₩ 1,053,219 million as of December 31, 2023).

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

(h) Global anti-base erosion model rules

If the Group's revenue exceeds EUR 750 million and Pillar Two Model Rules have been enacted or substantially enacted in some or all of the jurisdictions implementing the rules, the following information must be included to meet disclosure requirements:

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalization of the global economy. Global anti-base erosion model rules ("GloBE Rules" or "Pillar Two Model Rules") apply to multinational enterprises (MNEs) that have consolidated revenue of EUR 750 million or more.

The GloBE Rules propose new taxing mechanisms as follows under which MNEs would pay a minimum level of tax ("Minimum Tax"):

- the Qualified Domestic Minimum Top-Up Tax (QDMTT);
- the Income Inclusion Rule (IIR); and
- the Undertaxed Payment Rule (UTPR).

New taxing mechanisms above ensure MNEs pay a minimum level of tax on the income arising in each jurisdiction where they operate. IRR, UTPR and QDMRR are applied by imposing a top-up tax in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum tax rate, 15%.

Amendments to KIRFS 1012 *Income taxes - International tax reform - Pillar Two Model Rules* were issued, and the amendments clarified that KIFRS 1012 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules. The Group applied the amendments including following provisions:

- mandatory application of temporary exception from the requirement to recognize and disclose deferred taxes arising from implementation of the Pillar Two Model Rules; and
- requirement for disclosing known or reasonably estimable information that would help users of financial statements to understand an entity's exposure to Pillar Two income taxes.

Pillar Two Model Rules were enacted in the Republic of Korea at the end of 2023 and has come into effect since January 1, 2024. Under the rules, the Group is an MNE subject to the Pillar Two Model Rules. At the same time, Pillar Two legislations have been enacted or substantially enacted in several other jurisdictions in which the Group operates, starting from the annual reporting period commencing on January 1, 2024.

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

If the Group's consolidated revenue exceeds EUR 750 million and is (substantially) established in some or all of the jurisdictions implementing the Pillar Two Model Rules, the following information is included to meet the disclosure requirements.

The effect of the Pillar Two income tax for the year ended December 31, 2024 is ₩ 2 million and primarily related to profits generated in the United States.

The Group continues to follow Pillar Two legislative developments, as other countries enact the Pillar Two Model Rules and assesses the potential impact on the Group's future operating results, financial position and cash flows.

27. Earnings Per Share (EPS)

(a) The relationship between EPS and accounting profit or loss for each of the two years in the period ended December 31, 2024 is as follows:

(in millions of Korean won, Korean won, and shares)	2024	2023
Profit for the year from continuing operations attributable to owners of the Parent Company	₩ 1,172,864	₩ 909,847
Loss for the year from discontinued operation attributable to owners of the Parent Company	(7,137)	(7,185)
Total	₩ 1,165,727	₩ 902,662
Weighted average number of ordinary shares outstanding (shares)	103,038,223	115,096,170
Basic and diluted EPS for continuing operations (in Korean won)	11,383	7,905
Basic and diluted losses for discontinued operation (in Korean won)	(69)	(62)
Total	₩ 11,314	₩ 7,843

(b) The following table reflects the income and share data used in the diluted EPS computations for each of the two years in the period ended December 31, 2024:

(in shares)	2024			
	Date	Number of shares (in shares)	Days	Weighted shares
Beginning balance for outstanding shares	Jan. 1 ~ Dec. 31	125,362,497	366	₩ 45,882,673,902
Beginning balance for treasury shares	Jan. 1 ~ Dec. 31	(21,012,574)	366	(7,690,602,084)
Disposal of treasury shares	Feb. 21	6,120	315	1,927,800
Acquisition of treasury shares	Aug. 9 ~ Nov. 27	(4,960,000)	35 ~ 145	(482,010,000)
Total				₩ 37,711,989,618
Days in circulation (days)				366
Weighted average number of ordinary shares outstanding (Ordinary shares outstanding for the accumulated number of days / days in circulation)				103,038,223

27. Earnings Per Share (EPS) (cont'd)

(in shares)

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

28. Related Parties

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

			Percentage of ownership (%)	
Type	Name of entity	Location	2024	2023
Associates	Lite Pharm Tech, Inc.[1]	Korea	12.53	12.53
	KORAMCO Banpo PFV Co., Ltd.[1]	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.[2]	Korea	51.01	51.01
	INNODIS CO.,Ltd.[1]	Korea	19.64	19.64
	SJ BIO MED Co., Ltd.[1,3]	Korea	14.39	14.39
	LSK Global Pharma Service Co., Ltd.	Korea	21.92	21.92
	Mirae Asset KT&G Investment Fund I[4]	Korea	50.00	50.00
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	Korea	35.00	35.00
	KB KT&G New Growth Fund 1[5]	Korea	66.67	66.67
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund[6]	Korea	51.35	51.35
	Starfield Suwon, Inc	Korea	50.00	50.00
	SangSang Loft Co.,Ltd.[7]	Korea	50.00	-
Others	AndaStation Professional Investment Private REIT No.1[8]	Korea	-	21.43
	KORAMCO Dongjak PFV Co., Ltd.[8]	Korea	-	19.47
	Others[9]	Korea	-	-

[1]The Group classified its interests in the entities as investment in associates, as The Group is deemed to have significant influence over such entities its right to participate in the entities' Board of Directors meetings in accordance with the agreement with shareholders, notwithstanding its ownership percentage is less than 20%.

[2]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.

[3]As of December 31, 2024, liquidation procedures are in progress.

[4]The Group classified its interest in the entity as investment in associates, as there are no arrangements that incur joint control among the partners, notwithstanding its consolidated ownership percentage is 50%.

28. Related Parties (cont'd)

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

[6]The Group classified its interest in the entity as investment in joint ventures, since unanimous consent from all shareholders is required for making decisions on material financial and operational policies in accordance with the agreement with shareholders.

[7]For the year ended December 31, 2024, the Group established SangSang Loft Co., Ltd. with Zero to N Co., Ltd. under 50:50 ratio. The Group classified its interests in the entity as investments in joint ventures.

[8]The Group excluded the entity from its related parties, as the entity was disposed during the year ended December 31, 2024.

[9]The Group classified the subsidiary of DNC Deogeun Co., Ltd. as other related party, as the Group acquired DNC Deogeun Co., Ltd. as its subsidiary for the year ended December 31, 2023.

(b) The Group carries out transactions with its related parties such as sales of goods and provision of services, etc. Details of the transactions with the related parties for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	2024		2023	
		Sales and other revenue	Purchase and other expenses	Sales and other revenue	Purchase and other expenses
Associates	KOCREF 36 REIT	₩ 1,200	₩ -	₩ 1,200	₩ -
	KOCREF 41 REIT	2,084	-	2,087	-
	INNODIS CO.,Ltd.	-	294	-	270
	LSK Global Pharma Service Co., Ltd.	-	64	-	128
	Cheongna Medipolis PFV Co.,Ltd.	633	-	-	-
Joint ventures	Starfield Suwon, Inc.	147	104	7	-
Others	AndaStation Professional Investment Private REIT No.18[1]	-	-	954	-
	Others	4,994	-	467	-
	Total	₩ 9,058	₩ 462	₩ 4,715	₩ 398

[1]The Group excluded the entity from related parties, as the entity was disposed for the year ended December 31, 2024.

28. Related Parties (cont'd)

(c) Account balances of receivables and payables with the related companies as of December 31, 2024 and 2023 are summarized as follows:

(in millions of Korean won)

Type	Name of entity	2024		2023	
		Receivables	Payables	Receivables	Payables
Associates	INNODIS CO.,Ltd.	₩ -	₩ 27	₩ -	₩ -
Joint ventures	Starfield Suwon, Inc.	98	10	8	37
	SangSang Loft Co.,Ltd.	-	2	-	-
Others	AndaStation Professional Investment Private REIT No.18[1]	-	-	481	-
	Others[2]	51,259	113	39,000	775
	Total	₩ 51,357	₩ 152	₩ 39,489	₩ 812

[1]The Group excluded the entity from related parties, as the entity was disposed during the year ended December 31, 2024.

[2]Presented in the gross amount before deducting loss allowance of ₩ 4,971 million as of December 31, 2024 (2023: ₩ 3,483 million).

(d) Details of fund transactions with the related parties for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)

Type	Name of entity	2024			2023		
		Equity investment	Loan	Equity recovery	Equity investment	Loan	Equity recovery
Associates	Cheongna Medipolis PFV Co.,Ltd.	₩ -	₩ -	₩ -	₩ 83,978	₩ -	₩ -
	Mirae Asset KT&G Investment Fund I	5,000	-	-	5,000	-	-
	KB KT&G New Growth Fund 1	-	-	-	3,000	-	-
	JIELGWANGJIN CITY DEVELOPMENT Co., Ltd.	-	-	-	105	-	-
Joint ventures	KORAMCO Europe Private REIT 3-2 Fund	1,422	-	-	-	-	32
	Starfield Suwon, Inc.	15,000	-	-	100,000	-	-
Others	SangSang Loft Co.,Ltd.	320	-	-	-	-	-
	AndaStation Professional Investment Private REIT No.18[1]	-	-	23,738	-	-	-
	KORAMCO Dongjak PFV Co., Ltd.[1]	-	-	2,244	-	-	-
	Others	-	11,870	-	-	39,000	-
	Total	₩ 21,742	₩ 11,870	₩ 25,982	₩ 192,083	₩ 39,000	₩ 32

[1]The Group excluded the entity from related parties, as the entity was disposed for the year ended December 31, 2024.

(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 30 (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.

28. Related Parties (cont'd)

(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 December 31, 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 December 31, 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 December 31, 2024, the remaining contribution amount is ₩ 12,000 million, and the detailed timeline for contribution is yet to be determined (see Note 30 (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 December 31, 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 30 (c)).

(n) Key management personnel compensations for each of the two years in the ended December 31, 2024 are as follows:

(in millions of Korean won)		2024		2023
Long and short-term employee benefits	₩	25,729	₩	21,091
Retirement benefits		2,413		2,249
Total	₩	28,142	₩	23,340

29. Risk Management and Fair Value of Financial Instruments and Capital Management

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

(a) Market risk

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

① Currency risk

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

The carrying amounts of monetary assets and liabilities denominated in a foreign currency other than the functional currency as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	Monetary assets	Monetary liabilities	Monetary assets	Monetary liabilities
USD	₩ 2,277,914	₩ 141,405	₩ 2,482,127	₩ 136,464
EUR	29,847	26,664	4,255	34,121
Others	9,603	30,393	52,043	15,788
Total	₩ 2,317,364	₩ 198,462	₩ 2,538,425	₩ 186,373

The effects of a 10% change in the Korean won-foreign currency exchange rate on profit before tax as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024		2023	
	10% increase	10% decrease	10% increase	10% decrease
Increase (decrease) in profit before tax	₩ 211,890	₩ (211,890)	₩ 235,205	₩ (235,205)

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

② Price risk

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

The effects of a 5% fluctuation in the price index of stocks on comprehensive income or loss before tax (gain or loss on valuation of financial assets at fair value through other comprehensive income or loss) for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024		2023	
	5% increase	5% decrease	5% increase	5% decrease
Increase (decrease) in comprehensive income or loss before tax	₩ 1,262	₩ (1,262)	₩ (822)	₩ 822

③ Interest rate risk

The Group is exposed to the risk of interest rate fluctuation related to its borrowings, trade payables and other payables, and lease liabilities. The Group's management maintains an appropriate balance between the fixed and variable interest borrowings by regularly measuring the risk of fluctuations in fair values or future cash flows of financial instruments due to the changes in market interest rate. The effect of interest rate change on fair values or future cash flows of financial liabilities is immaterial considering the volume of the variable interest rate liability as of December 31, 2024.

(b) Credit risk

The Group is exposed to credit risk that one of contracting parties to a financial instrument may incur financial loss to the other party due to the failure to perform its obligations. In order to manage credit risk, the Group's management only transacts with parties having credit rating over certain level and establishes and manages the credit enhancement policies and procedures for financial assets. The Group evaluates the credit rating of new transacting party using the financial information disclosed at the point of contract conclusion 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 credit rating, and when the collection of financial assets is delayed, status of such assets and collection strategies are reported quarterly and appropriate measures are taken depending on the reason of delay.

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

As of December 31, 2024 and 2023, the carrying amounts of financial assets present the maximum exposure to credit risk and details thereof are as follows:

(in millions of Korean won)	2024	2023
Cash and cash equivalents (excluding cash on hand)[1]	₩ 1,135,362	₩ 1,031,893
Other financial assets	494,021	378,565
Financial assets at fair value through profit or loss[1]	582,870	687,388
Trade and other receivables	1,703,225	1,656,209
Long-term deposits	1,705,504	1,479,737
Derivative assets	-	7,751
Total	₩ 5,620,982	₩ 5,241,543

[1]As of December 31, 2024, money market trust amounting to ₩ 1 million classified as cash equivalents are included in the financial assets at fair value through profit or loss.

(c) Liquidity risk

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

Details of the maturity analysis according to the remaining maturity of the financial liabilities as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)	2024					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 287,975	₩ 289,143	₩ 250,804	₩ 38,339	₩ -	₩ -
Long-term borrowings	250,159	280,435	13,372	31,703	235,360	-
Bond	907,934	994,810	8,572	124,667	861,571	-
Convertible bonds	27,388	31,533	-	31,533	-	-
Trade and other payables	1,308,373	1,318,457	1,240,481	17,633	37,733	22,610
Derivative liabilities	32,801	32,801	32,801	-	-	-
Lease liabilities	48,746	53,656	7,199	16,517	29,289	651
Non-controlling interest liability	7,072	7,072	-	-	4,470	2,602
Total	₩ 2,870,448	₩ 3,007,907	₩ 1,553,229	₩ 260,392	₩ 1,168,423	₩ 25,863

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

(in millions of Korean won)

	2023					
	Carrying amount	Contractual cash flow	Remaining maturity of contract			
			Less than 3 months	3 months ~ 1 year	1 year ~ 5 years	More than 5 years
Short-term borrowings	₩ 61,576	₩ 79,522	₩ 157	₩ 79,365	₩ -	₩ -
Long-term borrowings	174,791	207,740	3,209	31,689	172,842	-
Bond	299,165	331,086	3,206	9,618	318,262	-
Convertible bonds	23,378	31,533	-	-	31,533	-
Trade and other payables	1,284,892	1,321,538	1,252,384	27,013	27,562	14,579
Lease liabilities	46,478	48,868	5,848	14,189	27,861	970
Non-controlling interest liability	17,821	17,821	-	-	14,783	3,038
Total	₩ 1,908,101	₩ 2,038,108	₩ 1,264,804	₩ 161,874	₩ 592,843	₩ 18,587

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

As of December 31, 2024, the Group provides joint-guarantees for mid-payment loan provided to the buyer related to the real estate sales contract of ePyeonhansesang Daejeon Station Centum Vista and Digital Empire Pyeongchon Biz Valley (guarantee limit: ₩ 17,960 million, remaining contract maturity: 1 ~ 3 years) and has recognized a financial guarantee provision liability of ₩ 47 million (2023: ₩ 44 million) (see Notes 18 (f) and 30 (c)).

In addition, the Group provides contribution commitment for debt/equity instruments, Capital call agreement for overseas property fund and others. Maximum exposure of liquidity risk in relation to such agreements are equal to the agreed amount (see Note 30 (d)).

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

(d) The carrying amounts of each category of financial instruments as of December 31, 2024 and 2023 are summarized as follows:

(in millions of Korean won)	2024	2023
Financial assets:		
Financial assets at fair value through profit or loss[1]	₩ 582,870	₩ 687,388
Financial assets at fair value through other comprehensive income or loss	211,693	233,058
Derivative assets	-	7,751
Financial assets measured at amortized cost		
Cash and cash equivalents[1]	1,135,967	1,031,953
Other financial assets	494,021	378,565
Trade and other receivables	1,703,225	1,656,209
Long-term deposits	1,705,504	1,479,737
Subtotal	5,038,717	4,546,464
Total financial assets	₩ 5,833,280	₩ 5,474,661
Financial liabilities:		
Derivative liabilities	₩ 32,801	₩ -
Financial liabilities measured at amortized cost		
Short-term borrowings	287,975	61,576
Long-term borrowings	250,159	174,791
Bond	907,934	299,165
Convertible bonds	27,388	23,378
Trade and other payables	1,308,373	1,284,893
Lease liabilities	48,746	46,478
Liabilities for non-controlling interests	7,072	17,821
Subtotal	2,837,647	1,908,102
Total financial liabilities	₩ 2,870,448	₩ 1,908,102

[1]As of December 31, 2024, money market trust amounting to ₩ 1 million classified as cash equivalents are included in the financial assets at fair value through profit or loss.

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

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

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

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

(in millions of Korean won)	2024			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss	₩ 582,870	₩ -	₩ 231,324	₩ 351,546
Fair value through other comprehensive income or loss	211,693	202,430	-	9,263
Total financial assets	₩ 794,563	₩ 202,430	₩ 231,324	₩ 360,809
Deriave liabilities	₩ 32,801	₩ -	₩ 32,801	₩ -

(in millions of Korean won)	2023			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Fair value through profit or loss[1]	₩ 687,388	₩ -	₩ 299,638	₩ 387,750
Fair value through other comprehensive income or loss	233,058	223,553	-	9,505
Derivative assets	7,751	-	7751	-
Total financial assets	₩ 928,197	₩ 223,553	₩ 307,389	₩ 397,255

There was no movement between levels of the fair value hierarchy for each of the two years in the period ended December 31, 2024.

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

As of December 31, 2024 and 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 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 two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ 397,255	₩ 367,456
Acquisition	40,403	64,931
Disposal	(45,244)	(28,915)
Changes in fair value	(26,646)	(6,217)
Others	(4,959)	-
Ending balance	₩ 360,809	₩ 397,255

(f) Details of net gains or losses by each financial instrument category for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)

	2024					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 115,584	₩ -	₩ 115,584
Dividend income	10,057	8,509	-	-	-	18,566
Loss on valuation	(18,500)	-	(61,359)	-	-	(79,859)
Gain on disposal	69	-	-	-	-	69
Gain on lease contract adjustments	-	-	-	-	95	95
Interest expense	-	-	-	-	(42,089)	(42,089)
Reversal of impairment loss	-	-	-	21,777	-	21,777
Total	₩ (8,374)	₩ 8,509	₩ (61,359)	₩ 137,361	₩ (41,994)	₩ 34,143
Other comprehensive income before tax:						
Net change in fair value	₩ -	₩ 14,360	₩ -	₩ -	₩ -	₩ 14,360
Total	₩ -	₩ 14,360	₩ -	₩ -	₩ -	₩ 14,360

(in millions of Korean won)

	2023					
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income or loss	Derivatives	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the period:						
Interest income	₩ -	₩ -	₩ -	₩ 74,685	₩ -	₩ 74,685
Dividend income	12,809	10,283	-	-	-	23,092
Gain or loss on valuation	19,191	-	(7,312)	-	-	11,879
Gain on disposal	33	-	-	-	-	33
Gain on lease contract adjustments	-	-	-	-	342	342
Interest expense	-	-	-	-	(45,706)	(45,706)
Reversal of impairment loss	-	-	-	13,450	-	13,450
Other financial expense	-	-	-	-	(172)	(172)
Total	₩ 32,033	₩ 10,283	₩ (7,312)	₩ 88,135	₩ (45,536)	₩ 77,603
Other comprehensive income before tax:						
Net change in fair value	₩ -	₩ 26,565	₩ -	₩ -	₩ -	₩ 26,565
Total	₩ -	₩ 26,565	₩ -	₩ -	₩ -	₩ 26,565

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

(g) Capital Management

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

The Group manages capital on a capital basis with net liabilities (net assets) deducting cash and cash equivalents from the borrowings and bonds, and the overall capital management policy is the same as the previous fiscal year. Details on the Group's capital structure as of December 31, 2024 and 2023 are as follows:

(in millions of Korean won)		2024		2023
Total borrowings and bonds	₩	1,473,456	₩	558,910
Less: Cash and cash equivalents		(1,135,968)		(1,031,953)
Less: Current other financial assets		(463,317)		(294,103)
Less: Current financial instruments measured at fair value through profit or loss		(244,941)		(342,933)
Net assets	₩	(370,770)	₩	(1,110,079)
Total equity	₩	9,358,465	₩	9,294,935

30. Contingent Liabilities and Commitments

(a) Litigation cases

As of December 31, 2024, the Group has 25 cases of pending litigations under progress where the Group is the defendant and the litigation amounts are ₩ 174,971 million. It is not possible to reasonably predict the impact of the outcome of pending litigation on the consolidated financial statements of the Group as of December 31, 2024.

(b) Commitments with financial institutions

Details of the Group's major arrangements with financial institutions as of December 31, 2024 are as follows:

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

Type	Financial institutions	Currency	Limit	Execution
Opening import letter of credits	Hana Bank and one other	USD	211,200	70,476
Derivatives trading[1]	Hana Bank and five others	USD	218,015	31,273
Trade receivables factoring agreement	Hana Bank	KRW	5,000	298
Insurance Contract for Compensation of Consumer damages in Sponsored Door-to-Door Sales	Korea Special Sales Financial Cooperative Association	KRW	507	-
Others	Korea Development Bank and six others	KRW	1,034,050	449,425
	Hana Bank Shanghai branch	CNY	32,490	32,490

[1]Derivatives are composed of foreign exchange forward contracts and are held for trading as of December 31, 2024.

As of December 31, 2024, the Group has a short-term export credit insurance contract with the Korea Trade Insurance Corporation (covered amount: USD 160,523 thousand, EUR 1,800 thousand) related to the overseas export of manufactured cigarettes and other products.

(c) Payment guarantees and collaterals

Details of payment guarantees and collaterals provided by other parties to the Group as of December 31, 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	238,332	Housing distribution guarantee, etc.
Seoul Guarantee Insurance	KRW	31,058	License guarantee, etc.
GL Industrial Development Co., Ltd. and one individual	KRW	49,800	Joint guarantee
One individual	KRW	4,800	Joint guarantee
Korea SMEs And Startups Agency and one other	KRW	597	Loan agreements payment guarantee
ARCH	USD	79	Payment guarantees on license bond
America Bank	USD	500	Trade receivables payment guarantee
Garanti Bank and one other	TRY	29,000	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

30. Contingent Liabilities and Commitments (cont'd)

As of December 31, 2024, KT&G Taiwan Corporation receives a payment guarantee from Citi Bank Taiwan (executed amount: TWD 200,000 thousand), for import clearance. The Group has a recourse liability up to the limit of TWD 1,261,000 thousand to Citi Bank Taiwan.

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

(in millions of Korean won)

Guarantee user	Guaranteed by	2024			2023		Details of guarantee
			Limit amount	Execution amount	Limit amount	Execution amount	
Buyer of Suwon Hwaseo Prugio Briciel	Shinhan Bank	W	-	-	76,720	9,160	Loan guarantee for the intermediate payment of off-plan sales construction[1]
Buyer of ePyeonhansesang Daejeon station Centum Vista	Hana Bank	W	8,000	1,774	8,000	515	
Buyer of Digital Empire Pyeongchon Biz Valley	Hana Bank	W	9,960	4,046	-	-	Loan guarantee for the contract deposit
Agency registered in Korea Special Sales Financial Cooperative Association	Korea Special Sales Financial Cooperative Association	W	-	-	502	-	Payment guarantee for deductibles and others of branch
Buyer of Goyang Hyangdong district knowledge industry center[2]	Kookmin Bank and one other	W	-	-	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

[1]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.

[2]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 institution. 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 year ended December 31, 2024.

30. Contingent Liabilities and Commitments (cont'd)

Details of assets pledged as collaterals as of December 31, 2024 are as follows:

(in millions of Korean won)	Carrying amount	Debt amount	Collateralized amount	Collateral holder	Type
Property, plant and equipment	₩ 22,742	₩ 10,000	₩ 15,600	KB Kookmin Bank	Long-term borrowings
	44,130	22,500	44,400	Korea Development Bank	Current portion of long-term and long-term borrowings
	19,270	27,000	40,800	Shinhan Bank and two others	Short-term borrowings
	29,154	-	2,400	Korea Development Bank	Collateral for limit loan agreement
Investment properties	231,018	19,108	21,606	CJ Foodville Co., Ltd., etc.	Establishment of right to collateral security on rent deposits/ Establishment of lease contracts
	56,392	46,500	55,800	Mirae Asset Capital Co., Ltd.	Long-term borrowings[1]
Inventories	12,481	11,010	13,212	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
	600	-	720	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
	100	100	100	Kyobo Book Center Co.,Ltd.	Establishment of a pledge for leasehold deposits
Financial assets measured at fair value through profit or loss	5,040	-	5,280	Suhyup Bank	Establishment of pledge related to loan arrangement for Elif Mia contract deposit
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[2]
Investments in Associates	390	-	5,306	Hyundai Marine & Fire Insurance, NH Bank	Collateral for PF Loan of KORAMCO Banpo Project PFV Co., Ltd.[3]
Total	₩ 426,520	₩ 288,318	₩ 392,947		

[1]As of December 31, 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.

[2]As of December 31, 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.

[3]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 December 31, 2024 and 2023 are as follows:

(in millions of Korean won)		2024	2023
Cash and cash equivalents	Establishment of a pledge to savings	₩ -	₩ 4,765
Other financial assets and other receivables	Establishment of a pledge for property development	5,203	5,203
	Establishment of a pledge for leasehold deposits	100	597
	Deposit in the Accompanied Growth Cooperation Loan Fund	100,000	100,000
	Establishment of pledge related to loan arrangement for Elif Mia contract deposit	600	600
	Security deposits for checking accounts, etc.	4	424
	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	5,040	4,960
	Total	₩ 110,947	₩ 116,659

As of December 31, 2024, cash and cash equivalents and short-term financial instruments of ₩ 21,891 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 December 31, 2024 is ₩ 165,240 million.

30. Contingent Liabilities and Commitments (cont'd)

(d) Others

Each year, the Group deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Group inflicts damage on tobacco consumers due to any illegal activities committed by the Group and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩ 1,705,504 million in long-term deposits for MSA Escrow Fund as of December 31, 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 December 31, 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 ₩ 100,605 million and ₩ 35,206 million, respectively (as of December 31, 2023: ₩ 105,725 million and ₩ 37,295 million, respectively)

As of December 31, 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.

As of December 31, 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 for the nine-month period ended December 31, 2024 is ₩ 17,564 million.

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 and Smilegate New Deal Fund, etc., with the ceiling of ₩ 150,131 million and USD 15,000 thousand. As of December 31, 2024, the remaining contribution amount is ₩ 48,728 million and USD 760 thousand, and the detailed timeline for contribution is yet to be determined.

30. Contingent Liabilities and Commitments (cont'd)

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 December 31, 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.

The Parent Company has a joint disposal right to demand 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 December 31,2024, the Group is being provided with a commitment to complete the construction and guarantee from contractors and mutual aid associations for the sale contract of (ePyeonhansesang Daejeon Station Centum Vista, etc.) proceeded by the Group.

As of December 31, 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.

The Group is obligated to return infrastructure such as roads and neighborhood parks to Suwon City for free related to sales project in Suwon Daeyupyeong district. And as blocks 1, 2, and 3 of Suwon Daeyupyeong district are completed in September 2023, additional expected costs due to fulfilment of infrastructure-related obligations are being reflected in construction costs for the years ended December 31, 2024 and 2023 (see Note 22).

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.

30. Contingent Liabilities and Commitments (cont'd)

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

As of December 31, 2024, in relation to the ePyeonhansesang 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 ₩ 6,028 million loaned to the sub-subsidiary and problems related to the loan contract such as non-repayment of the loan.

During the year ended December 31, 2022, in relation to the construction of residential and commercial complexes in Sangbong-dong, the Group has reached an agreement with Bando Engineering & Construction Co., Ltd. to resolve the dispute over increase in construction costs due to the permission for change through arbitration judgement ordered by Korea Commercial Arbitration Board. For the progress of the construction, the Group also promised to pay ₩ 10 billion to Bando Engineering & Construction Co., Ltd. in instalment according to the completion rate until the point of completion. The construction was completed during the year ended December 31, 2023, however, the arbitration is in progress and the ultimate outcome of the arbitration is unpredictable as of December 31, 2024.

During the year ended December 31, 2024, the Parent Company singed a financial support letter for its subsidiaries, KT&G USA Corporation, Yungjin Pharm. Co., Ltd., and Cosmocos Co., Ltd., to provide operating funds, debt repayment and other management-related business support.

As of December 31, 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 December 31, 2024.

The Group is engaged in manufacturing and selling tobacco in Russia. As of December 31, 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 December 31, 2024.

According to the project finance loan agreement for the Gangnam Station business complex development project as of December 31, 2024, in the event of trigger clause, such as failure to pay the loan principal and interest, the Parent Company's subsidiaries 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.

31. Cash Flows

(a) Details of cash generated from operations for each of the two years ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Profit for the year	₩ 1,164,999	₩ 922,361
Operating profit from continuing operations	1,172,136	929,546
Operating loss from discontinued operation	(7,137)	(7,185)
Adjustments:		
Employee welfare	21,343	10,540
Retirement benefits	52,922	43,000
Loss on valuation or obsolescence of inventories	11,853	8,338
Depreciation	219,080	210,840
Amortization	31,179	30,233
impairment loss (Reversal of impairment loss) on trade and other receivables	(22,069)	(13,202)
Loss on foreign currency translation	50,158	98,696
Loss on valuation of derivatives	65,904	21,214
Loss on disposal of property, plant and equipment	587	3,230
Loss on impairment of property, plant and equipment	37,012	9,633
Loss on disposal of intangible assets	634	392
Loss on impairment of intangible assets	357	826
Loss on disposal of investment properties	403	86
Loss on impairment of investment properties	33,835	-
Loss on disposal of right-of-use assets	-	167
Loss on impairment of right-of-use assets	2,067	-
Loss on disposal of assets held for sale	196	-
Other expenses, etc.	18,673	4,958
Finance cost	91,635	67,641
Share based payment expense	1,493	158
Income tax expense	393,803	318,836
Gain on foreign currency translation	(377,205)	(94,191)
Gain on valuation of derivatives	(4,545)	(13,901)
Gain on disposal of property, plant and equipment	(3,727)	(4,515)
Gain on disposal of intangible assets	(31)	(3)
Gain on disposal of investment property	(16,114)	(7,333)
Gain on dsposal of assets held for sale	(58,394)	-
Gain on disposal of investments in associates and joint ventures	-	(9)
Other income, etc.	(17,489)	(8,354)
Finance income	(165,266)	(139,103)
Increase of investments in associates and joint ventures due to share of net gain/loss	(19,232)	(9,610)

31. Cash Flows (cont'd)

(in millions of Korean won)	2024	2023
Changes in working capital:		
Decrease (increase) in trade and other receivables	(12,835)	8,711
Decrease (increase) in derivatives	(20,807)	8,006
Decrease (increase) in inventories	(175,531)	18,985
Increase in accrued tobacco excise and other taxes	(84,462)	(54,045)
Increase in advance payments	(65,398)	(88,946)
Decrease (increase) in prepaid expenses	(61,063)	20,485
Increase in trade and other payables	32,866	338,069
Increase (decrease) in advance receipts	53,936	(5,840)
Increase (decrease) in tobacco excise and other taxes payable	12,220	(28,357)
Decrease in provision for site restoration	(103)	(84)
Decrease in net defined benefit liabilities	(44,221)	(31,630)
Cash flows from operations	₩ 1,148,663	₩ 1,646,282

(b) Material transactions without cash inflows and outflows for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Reclassification of property, plant and equipment to investment properties	₩ 8,090	₩ 13,722
Reclassification of construction-in-progress assets (property, plant and equipment, intangible assets and investment properties) upon completion	311,913	194,478
Increase or decrease in other payable related to the acquisition of property, plant and equipment	(13,754)	22,766
Reclassification of investment properties to inventories	135,657	56,959

31. Cash Flows (cont'd)

(c) Changes in liabilities due to financing activities for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ -	₩ (586,620)	₩ 586,620	₩ -
Short-term borrowings (including current portion of long-term borrowings)	89,097	203,150	31,918	324,165
Long-term borrowings	147,671	96,415	(30,118)	213,968
Bonds	299,165	589,612	19,157	907,934
Convertible bonds[1]	22,977	-	-	22,977
Lease liabilities	46,478	(26,439)	28,707	48,746
Total	₩ 605,388	₩ 276,118	₩ 636,284	₩ 1,517,790

[1]The amount excludes consideration for conversion right.

(in millions of Korean won)	2023			
	Beginning balance	Cash flow from financing activities	Others	Ending balance
Dividends payable	₩ 20,008	₩ (776,434)	₩ 756,426	₩ -
Short-term borrowings (including current portion of long-term borrowings)	76,755	(26,670)	39,012	89,097
Long-term borrowings	78,808	60,417	8,446	147,671
Bonds	-	295,867	3,298	299,165
Convertible bonds[1]	-	22,977	-	22,977
Lease liabilities	37,609	(25,326)	34,195	46,478
Total	₩ 213,180	₩ (449,169)	₩ 841,377	₩ 605,388

[1]The amount excludes the consideration for conversion right.

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

32. Non-Controlling Interests

(a) For subsidiaries in which the Group holds a material portion of non-controlling interests, details of their profit or loss and net profit and accumulated non-controlling interests allocated to the Group's non-controlling interests for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024					
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Changes in scope of consolidation	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩ 45,470	₩ -	₩ 586	₩ (505)	₩ 45,551
Cosmocos Co., Ltd.	1.44	209	-	65	(3)	271
DNC Deogeun Co., Ltd.	61.75	73,027	-	446	-	73,473
Edntheplnecentral Seocho	21.35	1,824	-	(1,824)	-	-
Total		₩ 120,530	₩ -	₩ (727)	₩ (508)	₩ 119,295

(in millions of Korean won)	2023					
	Share of non-controlling interest (%)	Beginning balance of accumulated non-controlling interests	Changes in scope of consolidation	Net profit or loss distributed to non-controlling interests	Others	Ending balance of accumulated non-controlling interests
Yungjin Pharm. Co., Ltd.	47.55	₩ 42,733	₩ -	₩ (1,842)	₩ 4,579	₩ 45,470
Cosmocos Co., Ltd.	1.44	203	-	8	(2)	209
DNC Deogeun Co., Ltd.	61.75	-	50,096	22,931	-	73,027
Edntheplnecentral Seocho	21.35	-	3,760	(1,398)	(538)	1,824
Total		₩ 42,936	₩ 53,856	₩ 19,699	₩ 4,039	₩ 120,530

(b) The condensed information on cash flows for subsidiaries in which the Group holds a material portion of non-controlling interests for each of the two years in the period ended December 31, 2024 is as follows:

(in millions of Korean won)	2024			
	Yungjin Pharm. Co., Ltd.	Cosmocos Co., Ltd.	DNC Deogeun Co., Ltd.	Edntheplnecentral Seocho
Cash flows from (used in) operating activities	₩ 21,741	₩ 8,372	₩ (20,872)	₩ (15,391)
Cash flows from (used in) investing activities	(18,302)	(2,212)	4,380	-
Cash flows from (used in) financing activities	(7,212)	(1,469)	5,520	15,317
Net increase (decrease) in cash and cash equivalents	₩ (3,773)	₩ 4,691	₩ (10,972)	₩ (74)
Cash and cash equivalents at January 1	7,208	2,962	27,230	139
Effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currency	1	15	-	-
Cash and cash equivalents at December 31	₩ 3,436	₩ 7,668	₩ 16,258	₩ 65

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

32. Non-Controlling Interests (cont'd)

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

33. Assets Held for Sale and Discontinued Operations

(a) Changes in assets held for sale for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Beginning balance	₩ -	₩ -
Transfer and others[1]	78,612	-
Disposal	(78,612)	-
Ending balance	₩ -	₩ -

[1]Consists of ₩ 78,612 million which was reclassified from investment properties (see Note 12).

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.

33. Assets Held for Sale and Discontinued Operations (cont'd)

(b) Details of profit or loss from discontinued operation for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024 [1]	2023
Sales	₩ -	₩ -
Cost of sales	-	-
Selling, general and administrative expense	(6,497)	(6,848)
Operating loss	(6,497)	(6,848)
Other income	1	267
Other expense	(682)	(770)
Finance income	155	166
Finance costs	-	-
Loss on discontinued operation, before tax	(7,023)	(7,185)
Income tax expense	(114)	-
Loss on discontinued operation, after tax	(7,137)	(7,185)
Exchange differences on translating foreign operations	(2,099)	(516)
Total comprehensive loss on discontinued operation	₩ (9,236)	₩ (7,701)

[1]Profits or losses from discontinued operation for the year ended December 31, 2024 are the amount after adjusting the effects of inventory returns within the Group.

Profits or loss from discontinued operation for each of the two years in the period ended December 31, 2024 are entirely attributed to the Parent Company.

(c) Details of cash flows from discontinued operation for each of the two years in the period ended December 31, 2024 are as follows:

(in millions of Korean won)	2024	2023
Cash flows used in operating activities	₩ (4,782)	₩ (4,468)
Cash flows from investing activities	125	118
Cash flows used in financing activities	(971)	(949)
Differences arising from changes in exchange rates on cash and cash equivalents presented in foreign currency	1,433	384
	₩ (4,195)	₩ (4,915)

34. Business Combination

(a) The Parent Company acquired 50% + 1 share of the issued share capital of CENTRAL PHARM INC. and obtained the control on November 1, 2024, to generate revenue from strengthening the distribution and sales of health functional foods.

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

(in millions of Korean won)		Amount
Consideration transferred		
Cash	₩	9,000
Assets acquired		12,230
Cash and cash equivalents		2,746
Trade and other receivables		495
Inventories		2,961
Intangible assets		4,875
Other assets		1,153
Liabilities assumed		6,530
Borrowings		1,780
Trade and other payables		2,464
Income tax liabilities		-
Other liabilities		2,286
Fair value of identifiable net assets	₩	5,700
Non-controlling interest[1]	₩	-
Goodwill		3,300

[1]The non-controlling shareholders have the right to exercise the disposal of their shares for ten years from the date when one year has elapsed from the grant date of the option and the Group is obliged to purchase these shares accordingly. Therefore, the present value of the exercise price is measured as financial liabilities, and the non-controlling interest is derecognized.

Sales and profits recognized for the year ended December 31, 2024 do not include amounts incurred prior to the business combination. Had the business combination occurred from January 1, 2024, the Group's sales would have increased by ₩ 6,402 million and its profit would have decreased by ₩ 3,553 million.

35. Events After the Reporting Period

In January 2025, the Parent Company newly established KT&G GLOBALTAS with the resolution of the Board of Directors on November 1, 2024 and establishment contribution of USD 19,000 thousand was completed.

In January 2025, the Parent Company has contributed USD 27,500 thousand to KT&G Kazakhstan LLP.

The Parent Company plans to issue unregistered senior bonds in the first half of 2025 with the resolution of the Board of Directors on February 6, 2025 for enhancing corporate value and securing investment resources.

On February 20, 2025, the Parent Company lent USD 245,364 thousand to PT Trisakti Purwosari Makmur with the resolution of the Board of Directors on February 6, 2025 to support facility funding.

On February 13, 2025, the Parent Company has retired 3,300,000 treasury shares with the resolution of the Board of Directors on February 6, 2025.

The Parent Company disposed 17,453 treasury shares for the purpose of paying CEO's short-term performance bonus and partial treasury share payment as executive compensation with the resolution of the board of directors on February 24, 2025.

In February 2025, the Parent Company signed a financial support letter for its subsidiaries, KT&G USA Corporation, Cosmocos Co., Ltd., and KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. to provide operating funds, debt repayment and other management-related business support.

Audit opinion on internal control over financial reporting

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") and the consolidated financial statements of the Group for the year ended December 31, 2024 in accordance with the Article 8 of the *Act on External Audit of Stock Companies.*

Attachments:

1. Independent auditor's report on internal control over financial reporting ("ICFR")
2. ICFR Operating Evaluation Report by CEO

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Independent auditor's report on internal control over financial reporting

(English translation of a report originally issued in Korean)

KT&G Corporation
The Shareholders and Board of Directors

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting ("ICFR") of KT&G Corporation and its subsidiaries (collectively referred to as the "Group") based on the Conceptual Framework for Design and Operation of ICFR established by the Operating Committee of ICFR in Korea (the "ICFR Committee") as of December 31, 2024.

In our opinion, the Group's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2024, in accordance with the Conceptual Framework for Design and Operation of ICFR.

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the consolidated statement of financial position as of December 31, 2024, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including material accounting policy information, of the Group, and our report dated March 4, 2025 expressed an unqualified opinion thereon.

Basis for opinion on ICFR

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

Responsibilities of management and those charged with governance for ICFR

Management is responsible for designing, implementing and maintaining an effective ICFR, and for assessing the effectiveness of ICFR included in the accompanying ICFR Operating Evaluation Report by CEO.

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

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Auditor's responsibilities for the audit of ICFR

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

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

ICFR Definition and Inherent Limitations

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

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

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



March 4, 2025

This report is effective as of March 4, 2025, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the Group's ICFR and may result in modifications to this report.

ICFR Operating Evaluation Report by CEO

ICFR Operating Evaluation Report by CEO (Consolidated)

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

We, as the Chief Executive Officer and the Internal Accounting Manager KT&G Company (the Company), evaluated the operating status of the Company's Internal Control over Consolidated Financial Reporting (ICFR) for the year ending December 31, 2024.

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

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

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee) as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Standards for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' Appendix 6 under Enforcement detailed guidelines of the regulations on external audit of stock companies.

Based on our evaluation, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2024, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

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

ICFR may not be able to detect or prevent material misstatements of financial statements that may arise due to intentional fraud due to inherent limitations of ICFR. Attachment of ICFR Operating Evaluation Report additionally describes the important internal controls that the company has designed and operated respond to the risks identified as fraud risks in the company's funds processes.

(Attachment)

- Internal control activities carried out by the company to respond to funds fraud risks such as embezzlement(Consolidated)

February 5, 2025

Kyung Man Bang (Signature)

Chief Executive Officer

Yong Bum Kim (Signature)

Internal Accounting Manager

(Attachment) Internal control activities carried out by the company to respond to funds fraud risks such as embezzlement(Consolidated)

The internal control activities disclosed in the attachment include only internal control activities related to direct deposits, withdrawals, and management of funds designed and operated to respond to the risk of fund fraud identified through the fraud risk assessment conducted by the company, and do not include all fund-related controls for financial reporting purposes.

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Entity Level Control	<Operation of Whistleblowing System > The Management establishes and operates an official system that allows company employees and external stakeholders to report fraud, such as embezzlement.	KT&G Corporation, Korea Ginseng Corporation and 5 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Aug, Dec '24, Jan '25
	<Supervision through Internal Audit Department> The Audit Committee supervises the ICFR system and employee misconduct through the internal audit department.	KT&G Corporation, Korea Ginseng Corporation and 5 other companies	No material weaknesses were found. KT&G Corporation and 6 other companies' ICFR Teams, Aug, Dec '24, Jan '25
	<Risk Assessment through Regular Change Management> The ICFR organization identifies and assesses potential fraud risks and appropriately reflects them in the design of controls during the annual change management. In addition, it considers the design of controls when a fraud incident occurs.	KT&G Corporation, Korea Ginseng Corporation and 5 other companies	No material weaknesses were found. KT&G Corporation and 5 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '24, Jan '25
	<Establishment Segregation of Duties Standards> The ICFR organization establishes standards for segregation of duties to define appropriate authority and responsibilities, and assesses the adequacy of operations.	KT&G Corporation, Korea Ginseng Corporation and 5 other companies	No material weaknesses were found. KT&G Corporation and 5 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Dec '24, Jan '25
Treasury Control	<System Setting for Fund Transfers> SAP Firm Banking and Internet Banking transfers are set up in the system to be processed with the approval of the Treasury manager, etc.	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug, Nov~Dec '24, Jan '25
	<Review and Approval of Funds Transfers> SAP Firm Banking and Internet Banking transfers are processed through review and approval by the Treasury manager. (•)Edn the pine central Seocho : by the Director of KT&G Real Estate Biz. Division	KT&G Global Rus, Edn the pine central Seocho Co., Ltd.	No material weaknesses were found. KT&G Global Rus's ICFR team, Edn the pine central Seocho Co., Ltd.'s Advisory firm, Sep, Nov '24, Jan '25

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<Vendor Account Registration and Modification Approval> The Bank Account Reviewer(Finance/ Treasury manager) verifies and approves the information requested for registration/ modification in the system matches the details.	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug~Sep, Nov~Dec '24. Jan '25
	< System Setting to Restrict Bank Account Entry > When preparing an expenditure slip, the system is configured to allow only pre-registered accounts to be entered.	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug, Dec '24. Jan '25
	<Automatic Slips Generation for Deposit/ Withdrawal> The system is configured to automatically generate deposit/ withdrawal slips for bank account transactions.	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Aug, Nov~Dec '24. Jan '25
	<Bank Account Balance Reconciliation and Approval > The Treasury(Finance) manager reconciles the system balance with the balance on the supporting documents received from the bank and approves it. (*)Edn the pine central Seocho : by the Finance manager of KT&G Real Estate Biz. Division	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 5 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Edn the pine central Seocho Co., Ltd.'s Advisory firm, Aug~Sep, Nov~Dec '24. Jan '25
	<Approval of Financial Product Subscription / Termination> The Treasury(Finance) manager verifies and approves whether the slip and electronic approval documents match the details.	KT&G Corporation, Korea Ginseng Corporation and 3 other companies	No material weaknesses were found. KT&G Corporation and 4 other companies' ICFR Teams, Aug~Sep, Nov~Dec '24. Jan '25
	<Long-term Unused Bank Accounts Monitoring> The Treasury manager checks the usage status of accounts held by the company that have no transactions in the current period and approves the results of the review. (*)Edn the pine central Seocho : by the Director of KT&G Real Estate Biz. Division	KT&G Corporation, Korea Ginseng Corporation and 6 other companies	No material weaknesses were found. KT&G Corporation and 5 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Edn the pine central Seocho Co., Ltd.'s Advisory firm, Dec '24. Jan '25

Category	Control Activities performed by the Company	Related Companies	Design & Operational Evaluation Results (responsible department, inspection period, etc.)
Treasury Control	<Physical Control and Approval of Seal Stamping> The general Affairs Team Leader(Treasury manager) reviews the official document request for the corporate/ authorized seal stamping from the relevant department and signs the usage details on the seal management ledger. and the corporate/ authorized seal is physically stored separately. (*)Edn the pine central Seocho : reviewed by the PIC of KT&G Real Estate Biz. Division	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 3 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Edn the pine central Seocho Co., Ltd.'s Advisory firm, Aug~Sep, Nov~Dec '24. Jan '25
	<Approval of the Loan Agreement and Execution> The Treasury(Finance) manager verifies and approves whether the slip and electronic approval documents match the details, and obtains approval from the Board of Directors if necessary. (*)Edn the pine central Seocho : by the Director of KT&G Real Estate Biz. Division	KT&G Corporation, Korea Ginseng Corporation and 4 other companies	No material weaknesses were found. KT&G Corporation and 3 other companies' ICFR Teams, Korea Ginseng Corporation China's Finance Team, Edn the pine central Seocho Co., Ltd.'s Advisory firm, Aug~Sep, Nov '24, Jan '25
	<Approval of Corporate Bond Issuance Plan> The Head of the Finance Center(Treasury manager) reviews the scale and timing of financing through corporate bonds and obtains approval from the Board of Directors.	KT&G Corporation, Youngjin Pharm. Co., Ltd.	No material weaknesses were found. KT&G Corporation and 1 other company's ICFR Teams, Aug, Sep, Nov '24
	<Approval of Corporate Bond Issuance> The Treasury manager verifies and approves whether the slip and electronic approval documents match the details.	KT&G Corporation, Youngjin Pharm. Co., Ltd.	No material weaknesses were found. KT&G Corporation and 1 other company's ICFR Teams, Aug, Sep, Nov '24

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