



# SUSTAINABLE SEED FOR SOCIETY

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2020 KT&G REPORT

# ABOUT THIS REPORT

## Report Overview

KT&G has published the KT&G Report on an annual basis to share its activities, performances, and plans for sustainable growth and healthy development. We reviewed recommendations from ESG-related global initiatives for better communication with stakeholders and reflected the results in this report. We will continue to transparently disclose our sustainability activities and performances through the KT&G Report and strive for harmonious growth in the environmental and social aspects.

## Reporting Period

This report presents our activities and performances from January 1 through December 31, 2020. Quantitative data from the last three years (2018~2020) is provided to show year-on-year trend. The period of some significant data is extended to fiscal year 2021 to ensure the timeliness of content.

## Reporting Scope

Financial information in this report is based on the K-IFRS. The scope of social and environmental information spans some overseas worksites (Russia, Turkey, and Indonesia) as well as domestic worksites including the Head Office, R&D Headquarters, Sintanjin Plant, Gwangju Plant, Yeongju Plant, Cheonan Plant, Gimcheon Plant, and sales sites across the country. Particularly, we report sustainability activities and performances of KGC and Yungjin Pharm, our subsidiaries, from this year and intend to extend the scope to all subsidiaries step by step. For any discrepancies, annotations were added.

## Reporting Standard

We prepared this report in accordance with Core Option of the GRI (Global Reporting Initiative) Standards and also reflected the indices of UN SDGs (Sustainable Development Goals), TCFD (Task Force on Climate-related Financial Disclosures), and SASB (Sustainability Accounting Standards Board).

## Assurance

To ensure the quality of reporting contents and reliability of data, the third-party assurance was conducted. The assurance statement can be found on page 133.



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

KT&G sustainability management: <https://www.ktng.com/enviroMng>

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KT&G Report 2020 was published as an interactive PDF format that includes functions such as navigating to relevant pages in the report and shortcuts to related websites.

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# LETTER TO STAKEHOLDERS

CEO **Baek, Bok-In**



**Dear all stakeholders,**

In 2020, our society endured an unprecedentedly difficult time than ever before, as the world was taken away from daily life due to the unexpected COVID-19 crisis and various social issues such as public health, economic crisis, and racial discrimination. We are still going through the dark tunnel of the pandemic. However, we believe we can overcome this tough time by pursuing a new future and changes, turning crisis into opportunity, and promoting solidarity and cooperation.

In 2020, despite uncertain business environment at home and abroad, KT&G Group achieved a meaningful result of surpassing KRW 5 trillion in sales, the highest since its establishment. Our overseas tobacco business drove the growth of sales and the NGP business, a new platform to lead the future market, was recognized for the potential of lil brand through the full-scale entry into the global market.

Moreover, we have been proactive in sharing fruits with business partners and delivering physical and mental supports to local communities. Since our top priority is to keep the safety of our employees at work, we have quickly implemented flexible working systems, telecommuting, and vaccine leave with the establishment of an in-house emergency response system.

**Dear all stakeholders who have shown interest and support for KT&G's journey,**

2020 was a time of overcoming unprecedented crises and of continuing to intensely ponder more than ever about our business strategy for sustainability management. To promote inclusive growth with all stakeholders in the corporate ecosystem and to make ESG-based strategy execution result in stronger competitiveness and more business opportunities, KT&G established the “Mid- to Long-term ESG Vision,” which includes six key areas of sustainability management and specific tasks.



**KT&G will lay the foundation for future growth by actively fostering its business portfolio that contributes to sustainability based on the ESG management system.**

The ESG-based business strategy has become critical for innovation and long-term growth. KT&G will secure leadership in the future tobacco business by developing responsible products, launch innovative platforms, and strengthening R&D capability. In the health functional food business, which is an important axis of the group, KT&G plans to advance into the global market in earnest by strengthening the foundation to demonstrate the scientific efficacy of “Cheong Kwan Jang.”

**Beyond a just commitment, KT&G will urge and communicate specific goals and practical changes to contribute to the increase of economic, social, and environmental values of all stakeholders in the business value chain.**

Implementing environmental responsibility throughout the value chain and managing a sustainable supply chain are no longer responsibilities for "future generations" but are risk and opportunity management for "us today." Having defined the ESG value creation area linked to business as a strategic pillar, we will solidify our execution power to make the ESG factor become a competitive edge in the value chain rather than a risk in our business.

KT&G Group is now preparing for a new challenge in the era of great post-pandemic transformation. We will continue to communicate and think about what is more sustainable and build a new business model and competitiveness to lead the growth of both our company and the industrial ecosystem, thereby creating integrated performances in the financial and sustainable aspects. We ask for your continued warm encouragement and interest in our challenges for the future.



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# KT&G AT A GLANCE

## Corporate Profile

KT&G pursues “Making a Better Life Together” with communities and is growing into a leading global company by making changes and innovation. Based on the corporate philosophy, “Exemplary,” “Progressive,” and “Together,” we are creating social values and expanding sustainability activities. We are also not only focusing on strengthening global competitiveness in our flagship tobacco business but also generating performances in the NGP (next-generation product), health functional food, bio and pharmaceuticals, and real estate businesses.

Company name	KT&G Corporation	Headquarters	71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea
Establishment	April 1, 1987	Employees	4,227 persons (as of Dec. 31, 2020, including contract-based employees)
CEO	Baek, Bok-in		

## Milestones

1883~1980

Beginning of Korean Tobacco History

1883

• Founded the Sunhwaguk

1965~1975

• Completed major manufacturing plant in Korea

1987

• Founded the Korea Monopoly Corporation

1987~2002

Growth and Leapfrog through Innovation

1989

• Founded the Korea Tobacco & Ginseng Corp.

1999

• Listed on the Korea Stock Exchange

• Separated the Red Ginseng Business (established the Korea Ginseng Corp.)

2002

• Changed the corporate name from Korea Tobacco & Ginseng Corp. to KT&G Corp.

2003~Present

A Leading Global Company

2004

• Acquired the Tae-A Industrial

2005

• Won the excellent award at the Korea IR Competition hosted by the Korea Investor Relations Service

• Selected as the best company in corporate governance by the Korea Corporate Governance Improvement Support Center (three consecutive years)

2008

• Established the KT&G Scholarship Foundation

• Established a local subsidiary in Russia and Iran

• Won the excellent award at the Korea IR Competition hosted by the Korea Investor Relations Service

2010

• Included in the DJSI World

2011

• Acquired Trisakti (an Indonesian tobacco company)

• Established Jilin Hanzheng Ginseng Co., Ltd.

• as the best company in corporate governance in 2011

2012

• Received A Level in the ESG evaluation by the Korea Corporate Governance Service (KCGS)

2013

• Developed low ignition point tobacco

• Selected as a No. 1 company in the tobacco category of the National Customer Satisfaction Index (NCSI)

2014

• Won the Minister Prize of Trade, Industry and Energy at the 36th Energy Saving Competition

2015

• Launched SangSang Stay

• Won the Presidential Prize at the 2015 Mecenat Award

2016

• Certified for leisure-friendly company by the Ministry of Culture, Sports and Tourism

• Won the Grand Prize at the 2016 Korea HRD Award

2017

• Launched heat-not-burn products "lil" and "Fit"

• Selected as an excellent company in gender equality in employment by the Ministry of Employment and Labor

2018

• Launched "lil HYBRID"

• Won A+ (the highest) Level in the ESG Evaluation by the KCGS

• Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family

• Won the Presidential Prize for contributing to law and order by the Ministry of Justice

2019

• Won the Grand Prize for corporate governance from the KCGS

2020

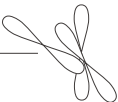
• Formed a partnership with PMI

• Opened SangSang Planet and SangSang Madang

2021

• Established a local subsidiary in Taiwan

• Won the AA rating in MSCI (Morgan Stanley Capital International)



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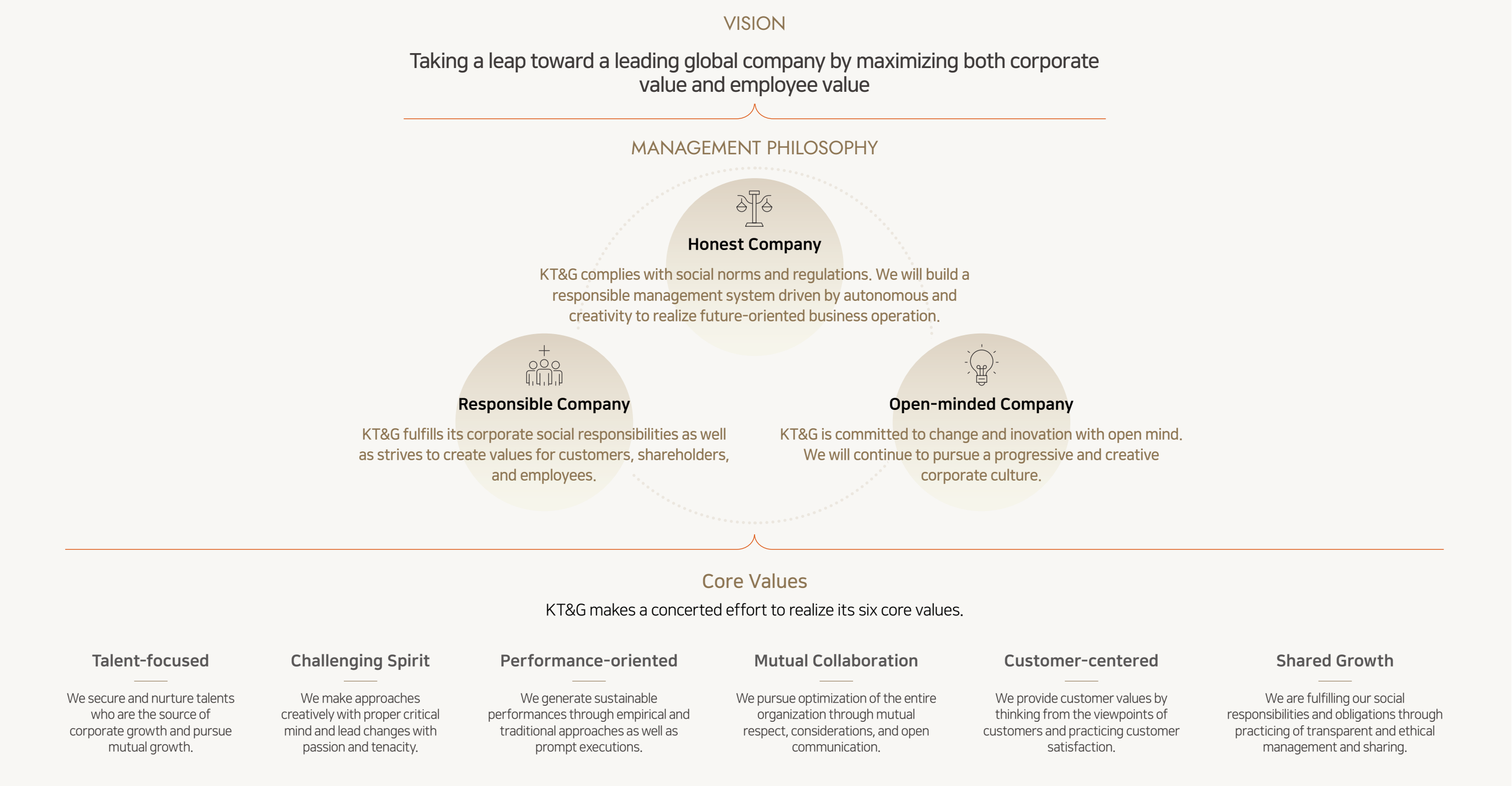
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Vision and Management Philosophy



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Busines Portfolio

KT&G engages in health functional food & living, pharmaceuticals & bio, and real estate businesses as well as its flagship tobacco business. Based on professionalism in each sector, we are committed to satisfying consumer needs and supplying trend-leading products, thereby pursuing balsnced growth. We are also proactive in expanding overseas business to lay a foundation for stable profit creation and sustianable growth.



Tobacco

**KT&G** ----- Munufacturing and sale of tobacco products

Based on overwhelming dominance in the domestic market, KT&G is expanding the export of tobacco products. By pursuing balanced business portfolio and actively conducting integrity and ethics, the company improves corporate value and grows into a leading global company.



**KOREA GINSENG CORP** ----- Munufacturing and sale of RTL

As the only reconstituted tobacco leaf (RTL) manufacture in Korea, TAE A Industrial is expanding its business territory to overseas market.



Helath Functional Food & Living

**KOREA GINSENG CORP** ----- Manufacturing and sale of health functional food products

As the best health functional food company, KGC is extending the tradition of the world's best Goryeo Ginseng and leaping toward a comprehensive health company in the health functional food and health service industries.



**KGC YEBON** ----- Processing of medicinal herbs and producing products

KGC Yebon is contributing to enhancing life quality and health by offering safe and trustworthy natural products in high quality.



**KGC LIFE & GIN** ----- Manufacturing and sale of health functional foods and cosmetics products

KGC Life & Gin is striving to offer a better life to families and society by balancing between science and natural materials of Red Ginseng.



**COSMOCOS** ----- Manufacturing and sale of cosmetics and relevant products

COSMOCOS is working its best to realize customers' dreams for pursuing beauty.



Pharmaceuticals & Bio

**YUNGJIN PHARM** ----- Manufacturing and sale of pharmaceutical and chemical products

Yungjin Pharm is a pharmaceutical company that has lasted for a half century under our goal to contribute to the national growth and public health.



Real Estate

**SANGSANG STAY** ----- Development and operation of real estate projects

We are striving to achieve new profit generation based on real estate rentals and hotel business.

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# GLOBAL BUSINESS NETWORK

By capitalizing on outstanding product quality and accumulated competence in distribution and marketing, KT&G is proactive in expanding overseas business. We are efficiently meeting growing demand by operating local production plants in Russia, Indonesia, and Turkey and increasing our brand value by expanding distribution infrastructure and enhancing human capital. With the goal of becoming the world’s fourth largest tobacco company by 2025, KT&G is focusing on establishing a business portfolio optimized for each region and developing new markets.



Highlights by Business Sector



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# BUSINESS OVERVIEW

## Domestic Tobacco Business



### Introduction to Business Operation and Strategy

The domestic tobacco business has been able to create solid results based on high performance in the domestic market, despite the overall contraction in the consumer market and a sharp drop in demand for duty-free channels due to COVID-19.

Thanks to the strong growth of odor reduced and ultra-slim products, the cigarette market share reached 64.0%, a 0.5%p increase from the previous year, with a continued upward trend for six consecutive years, and the sales volume was 41.6 billion cigarettes, a 2.5% increase from the previous year.

We have successfully established new cigarettes in line with market trends such as “ESSE Change Frozen” and “Raison French Paula” and strengthened brand competitiveness through investment activities mainly on major brands (ESSE, Raison, BOHEM, and The One).



### 2020 Highlights



By expanding the lineup of odor reduced products to 7 types, market share of the products reached 4.1%, a 2.5%p increase compared to the previous year, and eight types of “ESSE CHANGE,” a representative ultra-slim brand, recorded 13.6%, a 1.9%p increase compared to the previous year. As such, we focused on maximizing our performance in the strongest market.

In the future, we will continue to strengthen the position of our domestic tobacco business as Korea's No. 1 by investing in differentiated new products based on the hypoallergenic trend as well as improving product quality and developing functions that meet consumer needs, to continuously strengthen business competitiveness.



Chang-hyun Park,  
Head of Marketing HQ

Our domestic tobacco business sector is solidifying its undisputed No. 1 status in the domestic market based on a product portfolio that meets consumers’ diverse needs. We will secure world-class business competitiveness by developing differentiated products based on consumer needs, continuously upgrading quality, and nurturing human resources with global competence.

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NGP(Next Generation Products)

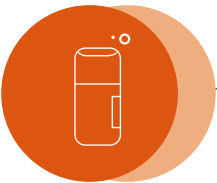


Introduction to Business Operation and Strategy

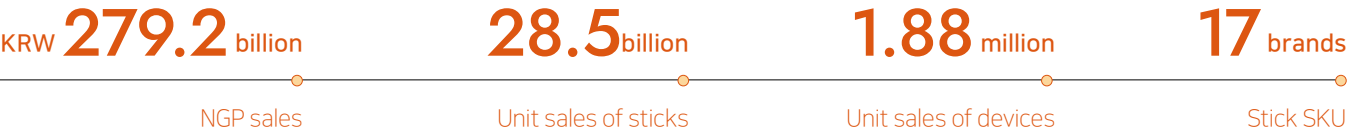
The NGP Business Unit launched the first generation of LIL SOLID, a cigar-type e-cigarette, in 2017 and KT&G's own platform, LIL HYBRID, in 2018.

Armed with innovation and originality, LIL has grown from a 2% share in the domestic NGP market in 2017, the first year of its launch, to 33% in 2020. LIL has been taking a leading position in the domestic market by continuing to innovate and release SOLID and HYBRID 2nd generation in 2020.

LIL is attracting attention not only in Korea but also in the global market. In 2020, we signed a strategic alliance with Philip Morris, the world's No. 1 tobacco company, to advance into the global market. In the first year of the alliance, we entered Japan, Russia, and Ukraine, which are leading markets for NGPs, and are rapidly expanding their recognition and market share in each country through rapid launch nationwide.



2020 Highlights



With the aggressive market entry of global tobacco companies, including KT&G, and smokers' growing demand for “Less Smell & Reduced Risk” products, the NGP market is expected to grow at an average annual rate of 15%.

KT&G’s vision is to achieve a global top tier by 2025 in the NGP market, the core of the future tobacco industry. To this end, we aim to expand our own platform that can strengthen our differentiated advantage in the market with a top priority.

We will also continue to secure source technology that can solve the unmet needs of smokers and accelerate our advancement into overseas markets, thereby nurturing LIL as a global brand.

The challenge of the NGP business will continue to make KT&G's excellent products accessible to all smokers around the world.



**Wang-seop Lim**  
Head of NGP Business Unit

In 2020, the size of the global Next Generation Products (NGP) market reached KRW 44 trillion. As smokers' needs for reducing the harmfulness and odor of existing cigarettes are getting stronger, this market is expected to continue to grow and exceed KRW 120 trillion by 2030. The NGP Business Unit will constantly innovate to provide better alternative tobacco products and experiences for adult smokers.

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Overseas Tobacco Business



Introduction to Business Operation and Strategy

We target overseas markets through aggressive direct business expansion and the continuous launch of differentiated products.

By expanding distribution coverage and restructuring sales organization to improve the constitution, our overseas subsidiaries achieved sales of approximately 16.4 billion cigarettes in 2020, a 16% increase from the previous year. To ensure continuous growth, we are focusing on sophisticating sales business and reinforcing sales organization.

Overseas tobacco business accounted for 34% of total unit sales in the tobacco business. We plan to continue expanding our business directly by establishing new subsidiaries in Taiwan and other countries. Despite the COVID-19 pandemic, the number of export countries increased from 19 in 2019 to 103 in 2020.



2020 Highlights



In order to meet the rapidly changing tastes of global consumers, KT&G is focusing on the continuous development of locally tailored products such as Indonesian Kretek (Clove) products. Since our current CEO was inaugurated, we have been continuously raising R&D investment (from KRW 12.2 billion in 2016 to KRW 26.3 billion in 2020) and launched 482 brands as of 2020 (419 as of 2019) worldwide.

KT&G operates a Compliance Officer system at all overseas subsidiaries to reinforce corporate transparency and compliance management. In the future, we will continue to improve our business management by adopting an internal accounting management system and SAP to overseas subsidiaries.



**Jae-young Cho**  
Head of Global HQ

KT&G actively targets the global market by continuing to expand its overseas tobacco business. We are not only expanding the coverage of existing local subsidiaries and establishing new corporations to promote direct business, but also developing locally tailored products through continuous R&D investment to pioneer and nurture markets with high growth potential, such as Africa, Latin America, and the Asia Pacific.



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Health functional food Business

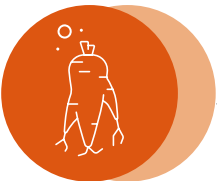


Introduction to Business Operation and Strategy

The sales of KGC Ginseng Corporation are generated from both domestic and overseas markets, and products are categorized into red ginseng prototypes (root), red ginseng products, general health functional foods, and cosmetics.

In the domestic market, we are solidifying the demand base by expanding the distribution network centered on the “Jeongkwanjang” brand and conducting customer-oriented marketing promotions such as the continuous development of new products. As of the end of 2020, domestic sales accounted for about 88.9%, and sales from major distribution channels such as department stores, duty-free shops, and large marts accounted for about 64% among them.

As for the overseas market, we expect steady sales growth by enhancing marketing activities in the main market (China and the U.S.), pioneering product-oriented markets such as Japan and Southeast Asia, and developing localized products. In 2020, overseas sales accounted for about 11.1% of total sales. We plan to gradually expand sales by pioneering the mainstream market of the U.S. and emerging markets.



2020 Highlights

KRW **1,412** billion  
Sales (consolidated)

**38** patents / **814** trademarks  
New intellectual properties

**4,137** farmers  
Contract for fresh ginseng cultivation

With the growing consumer interest in health and lifestyle that values well-being and eco-friendliness as life expectancy extends, we expect to maintain steady growth in the future. Since the ginseng business is a capital-intensive industry requiring economies of scale, it needs a long tenure period of capital, such as a maturation period of 6 years, to procure raw materials. It is accompanied by large-scale facilities, nationwide distribution network construction, and marketing costs, making the industry have high entry barriers.

Going forward, KGC will expand global business in earnest by establishing product development and brand strategies tailored to each region and capitalizing on accumulated business knowhow.

In Korea, we will make KGC's next-generation distribution model that offers online convenience and customized offline services by further expanding the on/off win-win model unique to Jeongkwanjang and combining the advantages of our online platform Jeong Mall and offline stores. In addition, we aim to lead the market trend by establishing a brand portfolio that targets new consumers including the MZ generation.



Jae-su Kim  
CEO of KGC

KGC is taking a leap forward to become a global-level comprehensive health company that satisfies consumer needs and contributes to the health and beauty of people around the world by diversifying red ginseng and other health food materials, solidifying beauty business, strengthening E-business, and expanding overseas business. We promise to drive innovation and challenge based on a set direction for healthy and beautiful life even in the fast-changing business environment and to devote ourselves to the right path and a healthier, more beautiful tomorrow.



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Real Estate Business



2020 Highlights

KRW **647.8** billion  
Sales (consolidated)

**12.2**%  
Sales proportion

Introduction to Business Operation and Strategy

KT&G is constantly seeking real estate projects that can generate continuous profits, such as the development of offices or business hotels and real estate financial investment, based on the financial capacity of the tobacco business and idle land available for development. Also, in the housing sale market, KT&G provides consumers with a stable opportunity to purchase a home by promoting a business based on the company's credibility.

In addition, we have carried out Sejong Complex Development project based on the business know-how accrued through experience in several development projects such as the Dongdaemun Shopping Mall, housing projects in Jeonju, Daejeon, Andong, and Daegu, and office building development in Migeun-dong and Daechi-dong. The land development project in Suwon is currently in progress

Recently, the domestic real estate market is experiencing heightened anxiety about regulation due to concerns about a bubble caused by a long-term boom and short-term surge. On the other hand, the market opportunity is increasing as the supply is still lacking compared to demand due to the continuous rise in demand for new housing, caused by the increase of 2-3 person households and the aging of housing in the metropolitan area.

The Real Estate Business Division plans to focus on three tasks to respond to market instability and maximize customer value. First, to lead the continuous growth trend of the real estate business, we plan to focus on solidly operating businesses that can generate sustainable and stable profits, such as real estate development, rental business, and financial investment. We will especially create effective results by establishing a balanced portfolio of sales and operating businesses, upgrading the business management process, and promoting new businesses through partnerships with high-quality financial institutions and construction companies.

Second, we will build a diversified product portfolio considering the diversifying consumer needs and changes in market trends. We will actively seek to advance into new products such as high-end housing, distribution centers, and data centers from the current general housing and office development.

Lastly, we will strengthen real estate ESG management by reflecting global ESG trends and related laws. We will continuously strive our best to fulfill our corporate social responsibilities by selecting important core tasks such as zero-energy building, preventing major industrial accidents, and preemptively establishing and implementing response strategies.



**Kwang-il Park**  
Head of Real Estate Business HQ

The Real Estate Business Division plans to lay a foundation for sustainable growth by actively participating in bidding for large-scale land development projects considering the changes of market environment and securing new lands for future projects. Moreover, we will strengthen our capability for lease business and financial investment to ensure stable profit creation, thereby building a balanced portfolio between operation and sales sectors. On top of those, we will promote ESG management such as zero-energy building construction to respond to tightening regulations on environment and occupational safety and ensure sustainable growth.

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Cosmetics Business



2020 Highlights

KRW **63.3** billion  
Sales (consolidated)

**28.1**%  
Sales increase to core clients

**15** companies  
Development of new clients

Introduction to Business Operation and Strategy

Since its establishment in 1992, COSMOCOS Co., Ltd. has been striving to become a global beauty company that creates new beauty values based on the management philosophy of “Right Company, Awakening Company, and Sharing Company.” Starting with the launch of the 'Flor de Man' brand, we launched major brands such as Danahan and RG III, and we are making progress to become a global company by targeting growth channels in 15 countries, including China, the United States, and Russia, with our expertise gained in the domestic market.

We have especially diversified distribution channels in the cosmetics market through our own factories with efficient production capabilities such as ISO22716/14001/45001 and CGMP certifications, R&D center that has secured capabilities and various patents to develop technologies and materials for new product development, and by enhancing brand awareness of 'Flor de Man.' In addition, we raised our status as ODM partners of major domestic and foreign companies with high technology and quality while nurturing and discovering our key and new ODM partners.

Since the cosmetics industry is sensitively affected by changes in tastes and trends and has short product life cycles, the success of new products is very crucial as the inability to reflect market changes can bring a crisis to the entire business. In addition, the market has contracted overall as the purchase amounts through duty-free have decreased with a sharp decrease in the number of Chinese tourists due to COVID-19 and sales drops in road-shop cosmetics stores due to a decrease in customers. However, as the number of virtual purchases not involving face-to-face contact rises, several brands are expanding customer contact points with various products and differentiated strategies on online platforms, accelerating the growth of e-commerce channels. This is expected to lead the market in the future.

In this environment, COSMOCOS is trying to transform its business structure for sustainable growth as a total beauty solution provider. To this end, we plan to secure the capacity for sustainable growth by nurturing a Star brand, fortifying the online platform, and strengthening our growing business portfolio, such as ODM. To secure tangible results in the ODM business, we are solidifying our position as a key partner of domestic and overseas high-quality clients. COSMOCOS will become a one-stop total beauty solution giant through sustainable growth.



Bin An  
CEO of COSMOCOS

In 2021, We are trying to transform our business structure into a total beauty solution company for sustainable growth. The main growth strategies are nurturing star brands, strengthening the portfolio of growth engines such as online and ODM sectors, and fortifying the capacity for sustainable growth. To secure tangible results in the ODM business, we are solidifying our position as a key partner of domestic and foreign high-quality clients. Please keep following COSMOCOS's path to becoming a one-stop total beauty solution giant in the future.

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# Pharmaceutical Business



## 2020 Highlights

KRW **208.3** billion  
Sales (consolidated)

**32** products  
Permission of new products

**Innovative Pharmaceutical Company**  
/ ISO 37001  
Certifications

## Introduction to Business Operation and Strategy

Yungjin Pharm Co., Ltd. is a pharmaceutical company dedicated to national economic development and public health with the spirit of saving mankind suffering from diseases since its establishment in 1952. Recognized for its innovative product development and excellent business potential leaping to overseas markets beyond the domestic market, it has won numerous awards such as the President's Award, the Prime Minister's Award, and the Minister's Award.

These achievements prove excellent business viability, including sustainability and innovative product development capacities in domestic and overseas pharmaceutical markets. In 2017, Yungjin Pharm was recognized for its excellent drug export ability among domestic pharmaceutical companies, such as receiving the \$70 million "Export Tower" Award. Also, the company is securing a sustainable growth engine by expanding the development of innovative and improved drugs through active R&D investment.

Recognized for its global capabilities and potential for R&D investment, it was certified as an "Innovative Pharmaceutical Company," and it is leading fair and transparent ethical management by adopting its own voluntary compliance program and acquiring "ISO 37001 certification".

Due to the impact of COVID-19 around the world in 2020, our overall sales decreased, as the sales of antibiotics and respiratory products decreased, and exports of Cephalosporin antibiotics, which is the main item in global business, also decreased. However, we also minimized losses through efforts to improve costs.

The domestic pharmaceutical industry continues to grow steadily due to an increase in the elderly population, chronic diseases caused by an aging population, and an increase in the demand for Quality of Lifestyle (QOL) drugs due to higher income levels. It is a high-value-added industry that can grow further by expanding into the global pharmaceutical market, by creating R&D results through expanding exports to overseas markets, and developing innovative new drugs. Recently, as domestic pharmaceutical and biotech companies are actively entering global licensing contracts, they are increasingly aggressive open innovations for close collaboration.

In the future, the Pharmaceutical Business will further strengthen its product pipeline through in-house new drug development and license-in of large-scale products, and it will rapidly access new overseas markets such as China and Europe based on this. By cultivating items for the five major disease groups (antibiotics, antipyretic, analgesic, anti-inflammatory, mental nervous system, respiratory system, enteral nutrition), we will establish a differentiated marketing strategy centered on the five treatment areas to strengthen sales and profitability.



**Chae-joon Lee**  
CEO of Yungjin Pharm

Yungjin Pharm will grow into a global pharmaceutical company beyond Korea by actively entering overseas markets based on continuous investment in R&D activities and accumulated export competence.



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# FINANCIAL HIGHLIGHT

## Summarized Income Statement

(Unit: KRW 100 million)

	Consolidated			Non-consolidated		
Classification	2018	2019	2020	2018	2019	2020
Sales	44,715	49,632	53,016	26,246	29,426	34,354
Operating profit	12,535	13,796	14,811	10,044	11,346	13,370
Net profit	9,034	10,372	11,716	8,567	8,914	10,753
Comprehensive income	8,586	10,567	11,218	8,096	8,970	10,436
Earnings per share (KRW)	7,178	8,196	9,320	6,785	7,059	8,553

## Summarized Financial Position

(Unit: KRW 100 million)

	Consolidated			Non-consolidated		
Classification	2018	2019	2020	2018	2019	2020
Current assets	64,134	64,172	67,504	44,186	43,142	47,082
Non-current assets	37,845	43,352	47,180	43,113	47,986	51,713
Total assets	101,979	107,524	114,684	87,299	91,128	98,795
Current liabilities	16,407	16,001	19,915	12,890	12,515	17,180
Non-current liabilities	3,890	4,128	3,853	757	812	1,076
Total liabilities	20,297	20,129	23,768	13,647	13,327	18,256
Total shareholders' equity	81,682	87,396	90,916	73,652	77,801	80,539

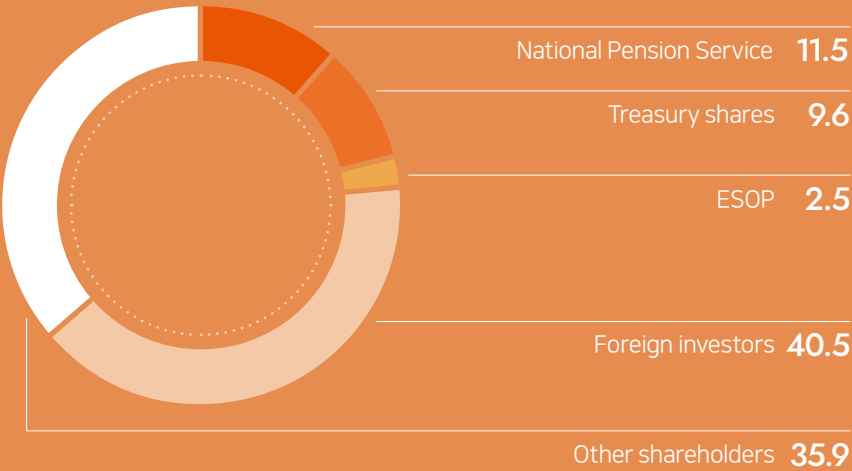
## Major Financial Indices

(Unit: %)

	Consolidated			Non-consolidated		
Classification	2018	2019	2020	2018	2019	2020
ROA	8.9	9.6	10.2	9.8	9.8	10.9
ROE	11.1	11.9	12.9	11.6	11.5	13.4
Operating profit margin	28.0	27.8	27.9	38.3	38.6	38.9
Current ratio	390.9	401.1	339.0	342.8	344.7	274.1
Debt-to-equity ratio	24.8	23.0	26.1	18.5	17.1	22.7

## Shareholders

(As of the end of December 2020, unit: %)



## Dividend Payment

Classification	2018	2019	2020
Total dividend paid (KRW in million)	505,061	556,952	595,584
Dividend propensity (% , consolidated)	55.7	53.8	50.8
Cash dividend yield ratio (%)	3.7	4.5	5.5
Dividend per share (KRW)	4,000	4,400	4,800

## Voting Rights Status

Classification	Kind	No. of shares
Number of shares issued	Common share	137,292,497
Number of non-voting shares	Common share	13,212,574
Number of voting shares	Common share	124,079,923



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# APPROACH TO SUSTAINABILITY

We at KT&G endeavor to make a better life with diverse stakeholders.  
We are proactive in minimizing environmental impacts from business operation,  
pursuing a better life through inclusion, and promoting sustainability management  
based on sound corporate governance.



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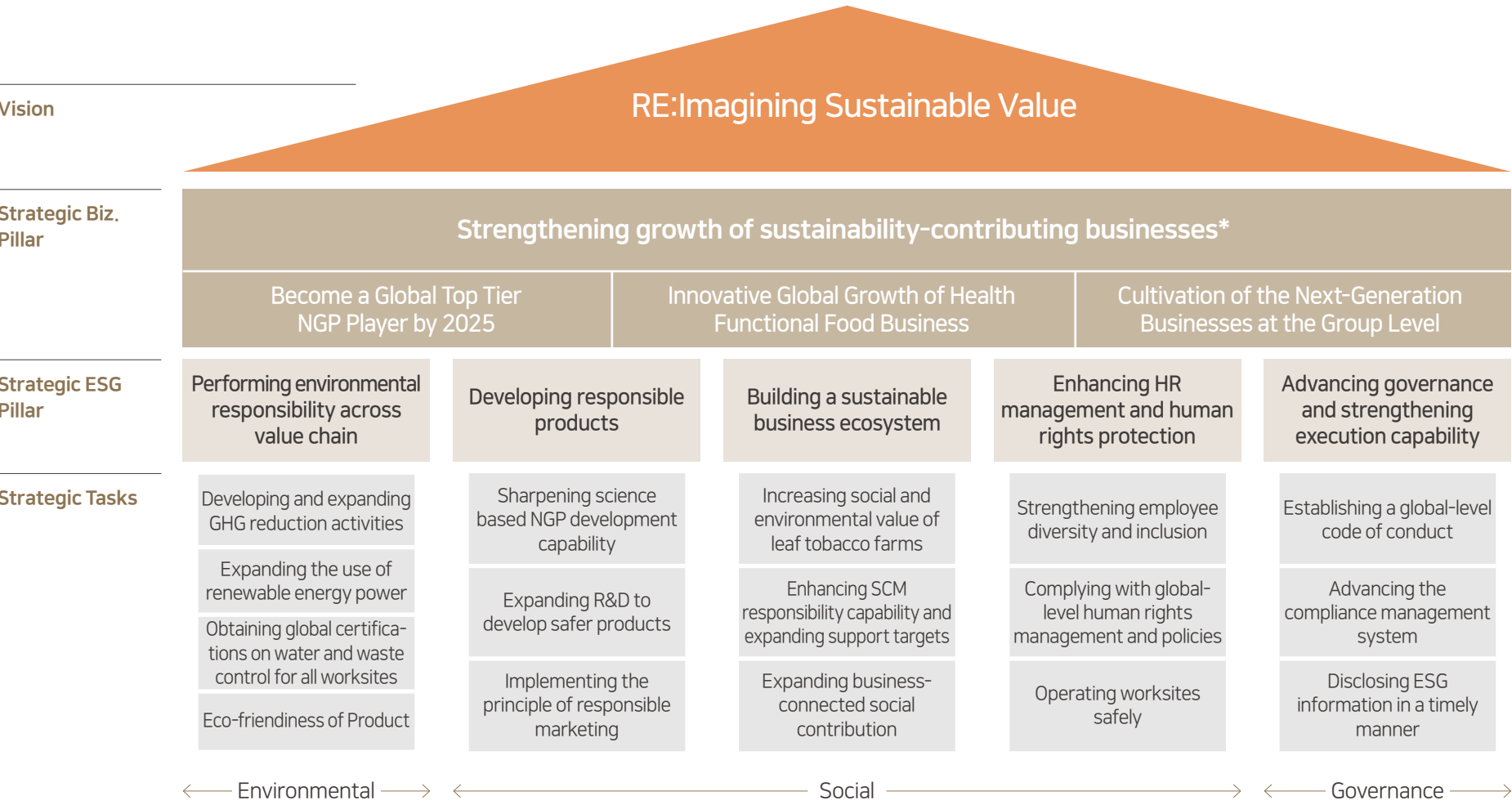
# SUSTAINABILITY STRATEGY

## Sustainability Management Strategy

### RE:Imagining Sustainable Value

#### Sustainability Management Promotion System

KT&G is laying a foundation for increasing corporate value and securing sustainable business strategies as a global player by establishing sustainability management value creation areas of six pillars connected with business activities. Those are “sales growth of sustainability-contributing businesses”, “developing responsible products,” “performing environmental responsibility across value chain,” “building a sustainable business ecosystem,” “enhancing HR management and human rights protection,” “advancing governance and strengthening execution capability.” We also set detailed strategic tasks by each area and a mid-to-long-term goal. Based on those, we will fulfill our social responsibility and sustainability management activities to meet stakeholder’s needs.



\* Businesses excluding traditional cigarettes (NGP, health functional food business, pharmaceuticals business, etc.)



**Kyung-man Bang**  
Head of Business HQ (CFO)

KT&G has been communicating with stakeholders about our directions through the slogan of “imaging a better life”. In order to re-imagine the corporate fundamental value and enhance our business sustainability based on ESG value creation areas, KT&G established a new mid- to long-term ESG strategy. ESG issues are business issues, and they are key agendas for corporate management. KT&G will strengthen the ESG competitiveness of our value chain and redefine the value of a corporation beyond the lexical meaning of environmental, social, and governance. By securing robust ESG competitiveness, we will continue to enhance the growth potential of our future businesses.



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Mid-to-long-term Sustainability Management Target

KT&G expects the dissemination of positive impacts from sustainability management beyond the meaning of commitment by establishing the sustainability management system. Based on specific goals and executions, we will improve our business sustainability and promote changes. To this end, we set mid-to-long-term goals by focused area and plan to monitor the performances every year to communicate with stakeholder and increase corporate value.

2025 Sustainability Target			
Category	KPI	2020	2025 Mid- to Long-term Goals (baseline: 2020)
Reducing climate change impacts	GHG emissions	202,483tCO <sub>2</sub> eq	• Reducing GHG emissions by <b>20%</b> by 2030, 2050 Net-zero (Scope 1,2,3) • <b>100%</b> zero-emission business vehicles operation by 2030
Accelerating the shift into circular economy	Water consumption	594,269tons	• Reducing water consumption by <b>20%</b> by 2030
	Waste recycling rate	54%	• Achieving <b>90%</b> waste recycling rate by 2030
Improving the eco-friendliness of product	Rate of use of recyclable packaging materials (as of weight)	94%	• <b>100%</b> use of packaging materials made of recyclable source
	Recycling rate of waste NGP devices discarded and returned to KT&G	50%	• <b>100%</b> recycling of waste NGP devices discarded and returned to KT&G by 2022 - Expanding marketing activities to encourage customer engagement in NGP device recycling
Enhancing human rights production	Execution of human rights impact assessment	Head Office	• <b>100%</b> implementation of human rights impact assessment at subsidiaries at home and abroad
Practicing responsible marketing	Noncompliance with the responsible marketing principle	Zero	• <b>100%</b> compliance with the responsible marketing policy at home and abroad
Sharpening the ESG competence of partners	Scope of supply chain ESG competence management	Major domestic partners (materials, leaf tobacco farms)	• Expanding management scope of supply chain targets and building a sustainable cooperation relationship - Overseas leaf tobacco: Peer group-level farm management through STP - Domestic leaf tobacco: Support for farming environment through KTGO* - Materials partners: Advancing assessment and supporting improvement solutions
Creating an ecosystem for shared growth	Contribution to leaf tobacco farms' social and environmental value creation (including the Tobacco Production Stabilizing Fund, accumulative)	Approximately KRW 480 billion	• Increasing social and environmental value of leaf tobacco farms (contribution amount: KRW <b>520</b> billion)
Social contribution	Business-connected social contribution	Approximately KRW 800 million	• Expanding our business-connected social contribution activities at least <b>twice</b>

\* Korea Tobacco Grower Organization

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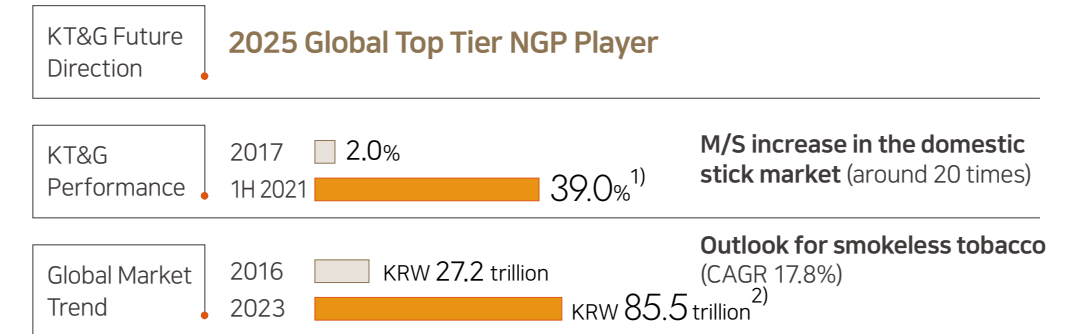
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## Business Strategy to Expand Sustainability

KT&G Group will invest its capabilities and resources in cultivating a business portfolio that contributes to sustainability and innovating existing business structure centered on cigarette manufacturing and sales with the aim of growing into a future-oriented global company.

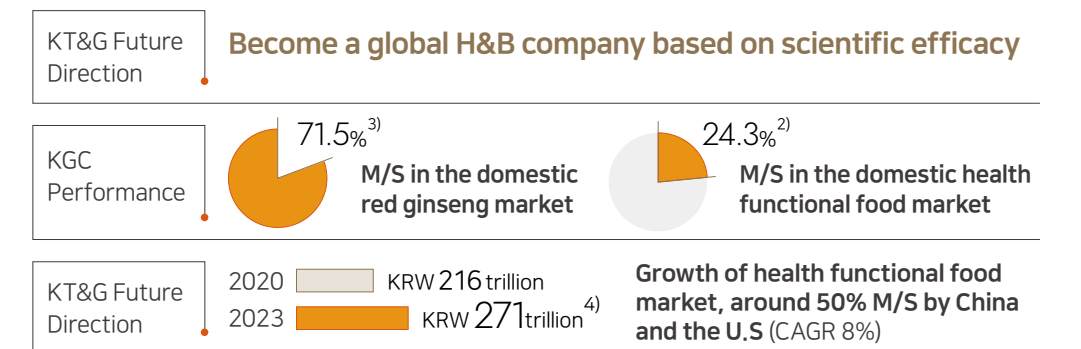
## 01 Become a Global Top Tier NGP (Next Generation Product) Player by 2025

KT&G is focusing on providing consumers with better products by expanding R&D investment and developing responsible products. To this end, we are always seeking new models and alternatives and investing in developing new technologies to meet consumer needs for less smell and reduced risk products. We will maintain the growth of our independent NGP platforms and launch new innovative platforms to secure the leadership in the future tobacco business. The advancement of product safety and harmfulness verification system will also be promoted to enhance product competitiveness. KT&G has been actively expanding overseas markets in collaboration with PMI demonstrating the world's largest tobacco business infrastructure. As of August 2021, our lil brand is sold in 10 countries across the globe, proving its potential and performances.



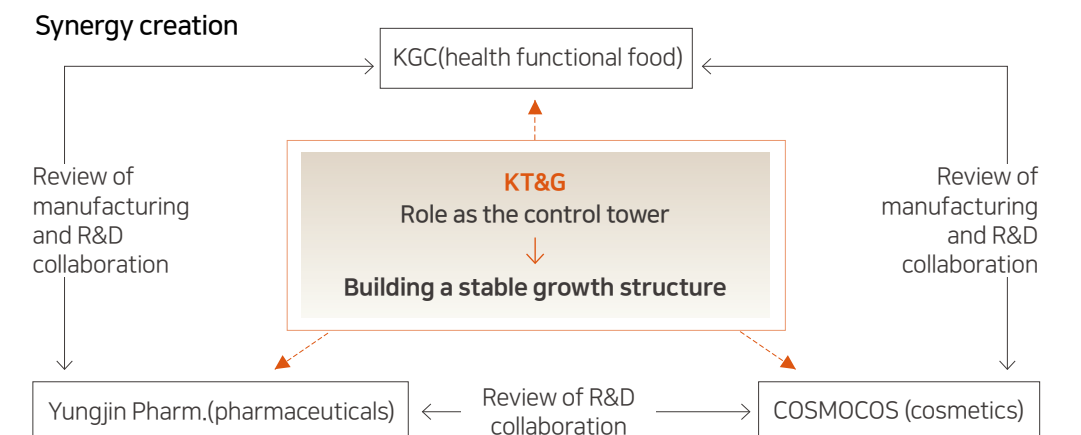
## 02 Pursue Innovative Growth of Health Functional Food Business in the Global Market

KGC has been solidifying its dominance in the domestic health functional food market based on “Jeongkwanjang” brand with over 120-year tradition and knowhow. To evolve into a world-class comprehensive health & beauty company, KGC will intensively target the global top two markets (China and the U.S.) and establish a brand identity that can effectively deliver the brand’s core value to global customers. The company will also promote R&D investment and clinical research in an aggressive manner to secure the evidence of scientific efficacy that will drive global expansion. The standardization of red ginseng materials will also be implemented to help the brand secure competitiveness in the global market.



### 03 Cultivate the Next Generation Growth Businesses at the Group Level

We have built a collaboration system among health functional food, pharmaceuticals, and cosmetics businesses to create synergy from the value chain perspective and are reviewing various collaboration tasks. We will continue to seek growth opportunities in the fields of distribution expansion, efficacy expansion, and R&D technologies in the mid and long-term.



Source: 1) CVS POS Data, 2) 2019 Euro Monitor, 3) 2019 Kantar Report, 4) STATISTA



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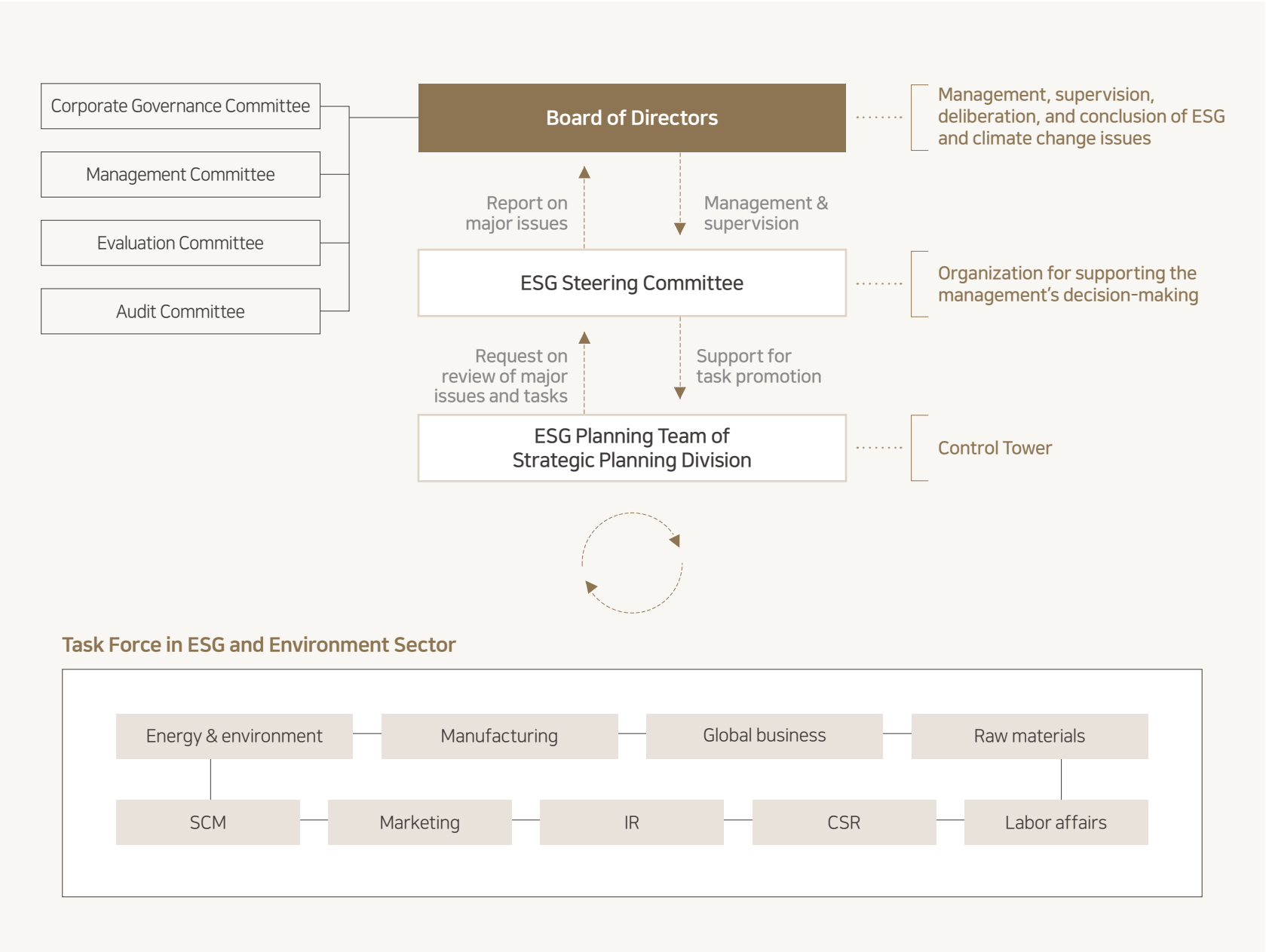
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## Sustainability Management Governance

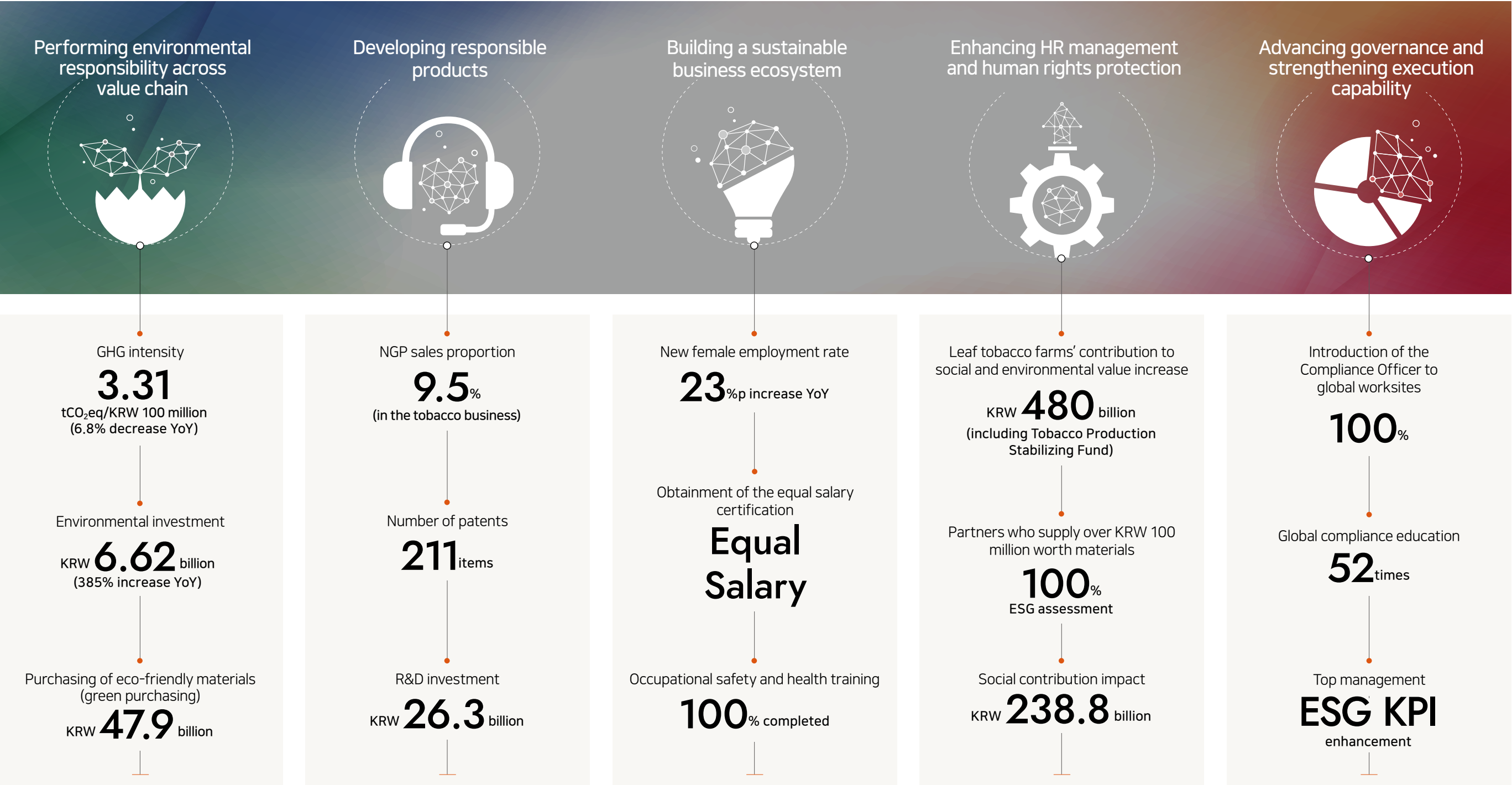
KT&G established the governance to manage sustainability risks in advance and enhance the power of sustainability execution. In September 2020, we amended the BOD regulations to empower the BOD, the supreme decision-making body, to supervision and decision-making on ESG and climate change issues. This structure will help us systematically respond to sustainability risks and clarify the responsibility of the management, contributing to enhance company-wide response strategy.

Particularly, the “ESG Steering Committee,” an organization consisting of executives dedicated to supporting the top management’s decision-making, checks and manages sustainability issues on a regular basis. ESG Planning Team, as a control tower for ESG management under the CFO, leads the establishment of ESG management system corresponding to global guidelines. The task force, a consultative body consisting of working-level staff in all business areas, holds meetings by major ESG agenda and checks the implementation of strategic tasks.

<b>Board of Directors</b>	Reviewing the mid-to-long-term climate change response strategies annually according to the company-wide ESG management direction and approving, managing, and supervising the practice of major tasks
<b>ESG Steering Committee</b>	Regularly inspecting ESG issues and reporting the results to the BOD as an organization consisting of executives dedicated to supporting the top management’s decision-making
<b>ESG Planning Team</b>	Playing a key role in establishing ESG management system corresponding to global guidelines as a newly launched control tower for ESG management under the CFO
<b>Task Force in ESG and Environment Sector</b>	Holding meeting by major ESG agenda and inspecting the implementation of strategic tasks as a consultative body consisting of working-level staff in all business areas



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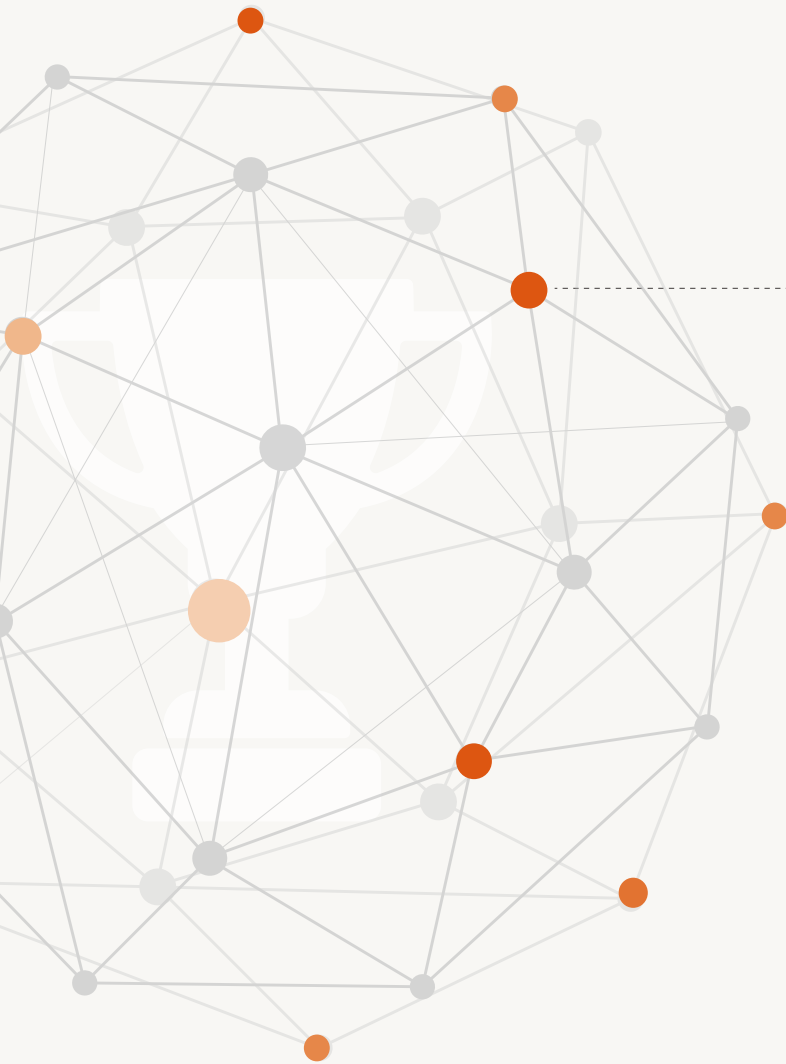
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ESG Ratings



MSCI  
**AA**  
(2021, highest rating in the industry)



KCGS  
**A**  
(2020)



SUSTINVEST  
**AA**  
(2021, in the entire ratings)

Awards and  
Certifications



Invention Day  
**Prime Minister  
Commendation**  
(2021, R&D HQ)



**Brand Award**  
of the year  
(2020, three consecutive years)



**Excellent  
Company**  
in work-life balance  
(2020, Ministry of  
Employment and Labor)



National Brand  
Competitiveness Index  
**1<sup>st</sup>**  
(2021, ESSE, 12 consecutive years)



**Family-friendly  
Company**  
certification  
(2020, Ministry of Gender Equality  
and Family)



Commendation for  
**Sustainability  
Management**  
(2020, Ministry of Trade, Industry  
and Energy)



**Best  
Company**  
in job creation  
(2021, Ministry of  
Employment and Labor)

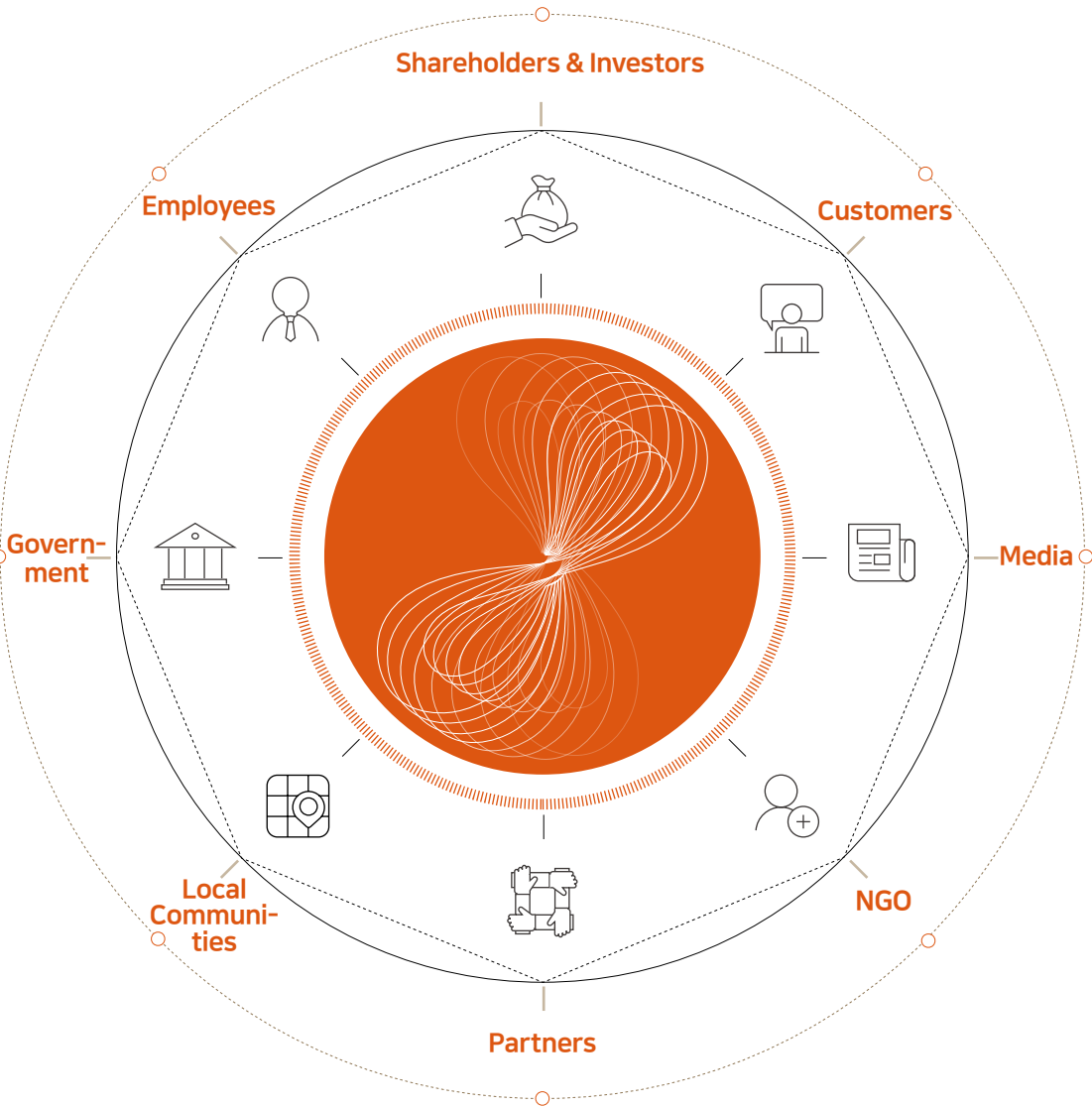


**Equal Salary**  
Certificatie (2021)

# MATERIALITY ANALYSIS

## Stakeholder Communication

KT&G defines shareholders and investors, government, local communities, employees, partners, customers, media, and NGOs as major stakeholder groups. To promote active communication with stakeholders related to major businesses, we listen to their opinions through diverse communication channels. As for major issues, we will prepare countermeasures considering stakeholders and reflect them in our management activities.



Stakeholder	Major issues	Communication channels
Shareholders & Investors	<ul style="list-style-type: none"> <li>• Maximization of shareholder value</li> <li>• Securing the transparency of corporate governance</li> <li>• Stable long-term growth</li> <li>• ESG risk management</li> </ul>	<ul style="list-style-type: none"> <li>• General shareholders' meeting</li> <li>• Management evaluation</li> <li>• Business Report / Sustainability Report</li> <li>• IR presentation</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Compliance with legal and social responsibilities</li> <li>• Job creation</li> <li>• Tax payment</li> </ul>	<ul style="list-style-type: none"> <li>• Policy meeting and seminar</li> <li>• Proposal system</li> <li>• Public hearing / advisory council</li> </ul>
Local Communities	<ul style="list-style-type: none"> <li>• Collaboration for solving local issues</li> <li>• Shared growth through the development of local communities</li> <li>• Strategic social contribution activities</li> </ul>	<ul style="list-style-type: none"> <li>• SangSang Fund</li> <li>• SangSang Madang</li> <li>• Employees' volunteer works</li> <li>• Welfare foundation &amp; scholarship foundation</li> <li>• Support for leaf tobacco farms</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Creating great place to work</li> <li>• Co-prosperity between the labor and management</li> <li>• Employee human rights protection and grievance handling</li> </ul>	<ul style="list-style-type: none"> <li>• Labor-management council</li> <li>• Grievance handling system</li> <li>• Intranet</li> <li>• SangSang Junior Board</li> </ul>
Partners	<ul style="list-style-type: none"> <li>• Shared growth through collaboration</li> <li>• Support for partners' sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated procurement system (KAPS)</li> <li>• Data &amp; document standardization system (EDI)</li> <li>• Grievance handling process</li> <li>• Supplier support programs</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Development of products and services meeting diverse needs</li> <li>• Improvement of customer satisfaction</li> <li>• Customer information protection</li> </ul>	<ul style="list-style-type: none"> <li>• Management disclosure</li> <li>• Business Report</li> <li>• Unethical behavior reporting channel</li> <li>• Plant tour</li> <li>• SNS / homepage</li> <li>• CS center, customer inquiry</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Transparent and swift information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>• IR activities</li> <li>• Press release</li> <li>• SNS / homepage</li> <li>• Sustainability report</li> </ul>
NGOs	<ul style="list-style-type: none"> <li>• Social responsibility for local communities and environment</li> </ul>	<ul style="list-style-type: none"> <li>• SangSang Fund</li> <li>• Welfare foundation &amp; scholarship foundation</li> </ul>

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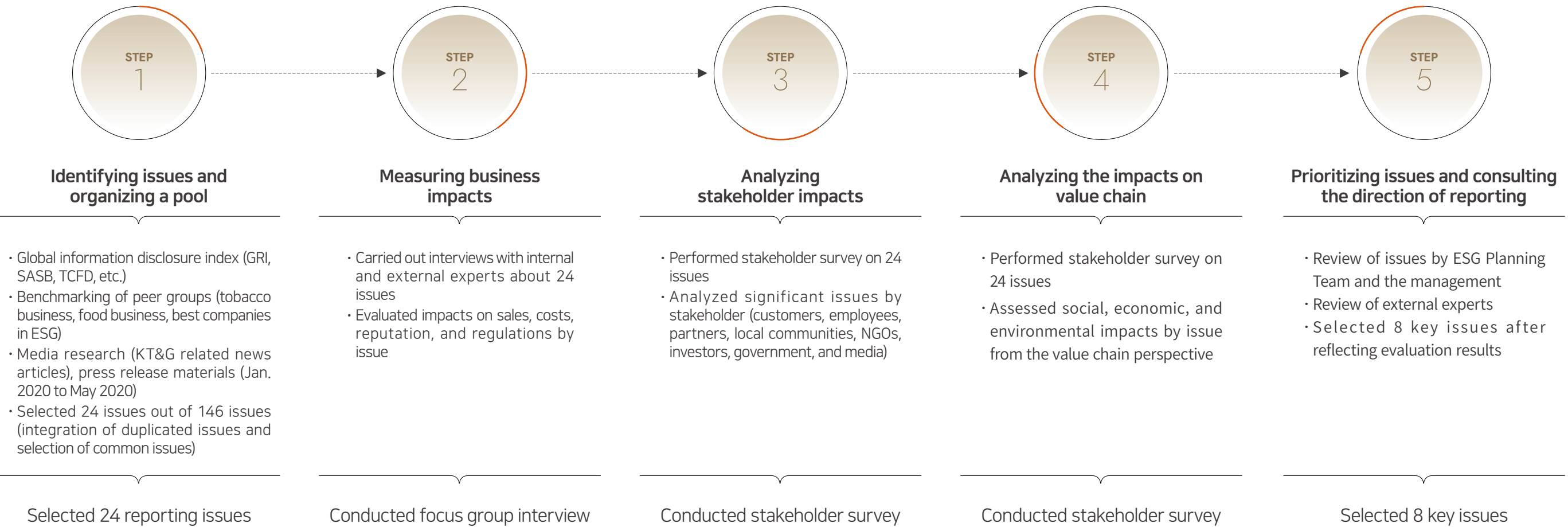
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Materiality Analysis Result

Materiality analysis process

We conducted materiality analysis to identify major ESG management issues which are critical to our business and intensively manage them. To identify issues, we reviewed major domestic and foreign ESG assessment criteria, media research results, and peer groups’ sustainability and ESG cases. And then, the materiality analysis by ESG issue was implemented based on the company’s ESG management tasks and internal and external stakeholder survey result.

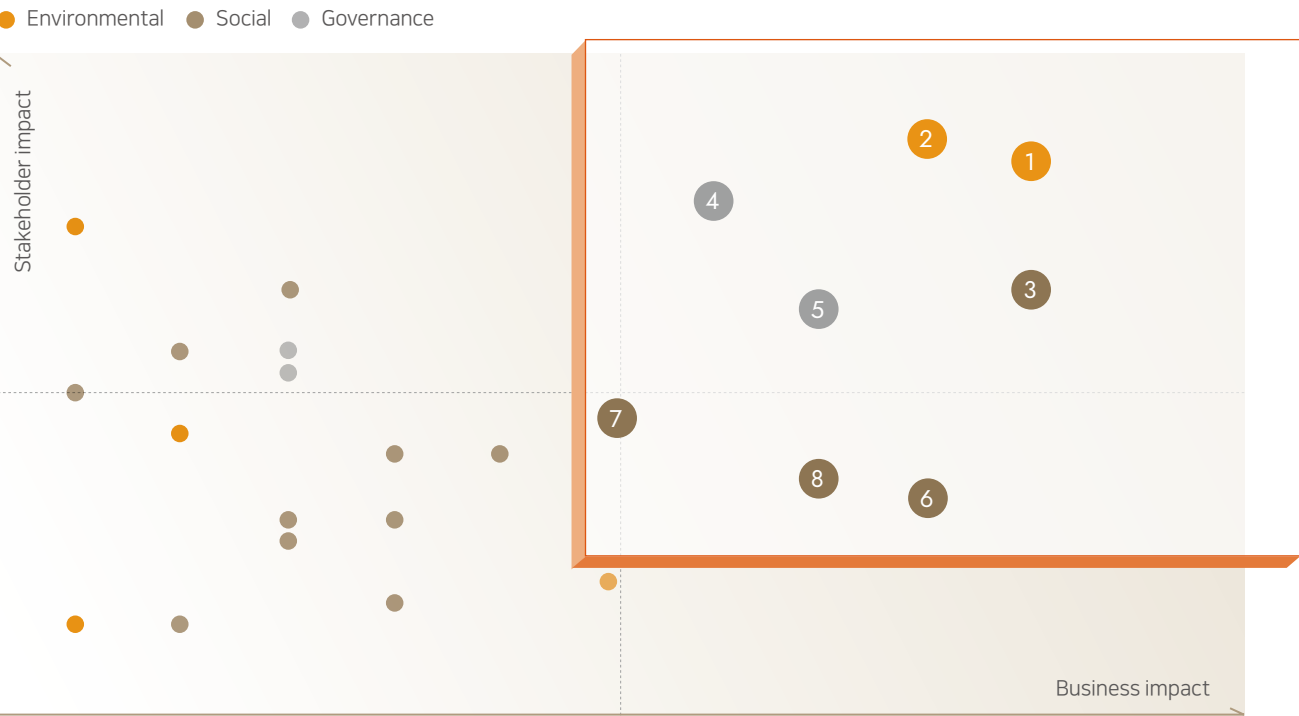


\* Survey of 457 stakeholders from July 1 to 14, 2021



Materiality Analysis Matrix

We decided reporting content based on the materiality analysis results and selected top 8 issues to be preferentially reported.



Key issue

- ① Response to climate change
- ② Eco-friendliness of Products
- ③ Reduction of harmfulness in tobacco products
- ④ Ethics and compliance
- ⑤ Disclosure on sound corporate governance
- ⑥ R&D and innovation capability enhancement
- ⑦ Responsible marketing
- ⑧ Management of partners' sustainability

Management issue

- Spreading of safety and health culture
- Waste management
- Transparent disclosure on tax
- Risk management
- Labor culture and employees' wellbeing
- Contribution to local communities
- Responsible procurement of raw materials
- Forest conservation
- Human rights protection
- Customer satisfaction management
- Water resource management
- Information protection
- Securing talents
- Employee diversity and inclusion
- Enhancement of employee competence
- Biodiversity protection

Key issues and reporting map

8 key issues cover environmental, social, and governance aspects in a balanced manner. Key issues in each aspect are as follows: response to climate change and the management of products' eco-friendliness for environment; reduction of harmfulness of tobacco products, responsible marketing, and management of partners' sustainability for society; and ethics and compliance, disclosure of sound corporate governance, and enhancing R&D and innovation capability for governance. Those are reported through five "Pillar" sections in detail.

Intensively reporting area (pillar)	Key issue	Stakeholder							Page
		Custom-ers	employ-ees	Partners	Local communi-ties	Investors	Govern-ment	Media	
Pillar 1: Performing environmental responsibility across value chain	① Response to climate change	●	○	●	●	●		●	30
	② Eco-friendliness of Products	●	●	●	●	○	○	●	40
Pillar 2: Developing responsible products	③ Reduction of harmfulness in tobacco products			●		●	●	●	48
	⑥ R&D and innovation capability enhancement					○		○	55
	⑦ Responsible marketing			●	○	○			46
Pillar 4: Building a sustainable business ecosystem	⑧ Management of partners' sustainability	○	●			●	○	○	81
Pillar 5: Advancing governance and strengthening execution capability	④ Ethics and compliance	○	●	○	●	●		○	92
	⑤ Disclosure on sound corporate governance		○			○			88



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# OUR IMPACT

## Creation of Sustainability Management Value

### Creation of integrated value

As a global company, KT&G endeavors not only to create economic value through business activities but also to expand social and environmental values across value chain, thereby contributing to building a sustainable society. As part of this commitment, we intended to analyze our value creation level through sustainability management activities to seek the future direction of our company. To this end, we analyzed our integrated value creation performances in 2020 by adopting KPMG’s global value measurement model “True Value” methodology.

### Indices selection and value calculation

We selected major indices necessary for understanding added values generated through business activities in the aspects of finance, society, economy, and environment. And then, we analyzed global research materials to calculate currency value per unit for each index.

Financial value is net profit generated for the year, while social and economic value is calculated by converting our contributions to investors, partners, and local communities to currency value. Environmental value is calculated by checking environmental impacts from emissions of GHG, air, water, and waste.

We calculated social, economic, and environmental costs and benefits by reflecting currency value criteria of global research materials in quantitative data including financial supports and pollutants emissions.

The currency value was adjusted considering the research time and inflation rates of each country. Foreign exchange rate as of the end of 2020 was applied to the calculation.

### Calculation method by index

Classification		Type	Calculation method <sup>1)</sup>
Financial value	Profit from business	Base	Net profit created in fiscal year 2020
Social & economic value	Return to investors	Benefit	Dividend and interest cost paid to investors and creditors
	Return to local communities through social contribution	Benefit	Donation for solving local problems (100%) Calculation of return on investment in educational supports and job creation project (118%) <sup>2)</sup> Calculation of return on investment in environment and infrastructure improvement project (250%) <sup>3)</sup> Calculation of return on investment in health support project (550%) <sup>4)</sup>
Environmental value	GHG emissions	Cost	Calculation of social cost <sup>5)</sup> from Scope 1,2,3 emissions
	Environmental impact on air	Cost	Calculation of social cost <sup>6)</sup> from air pollutants (NOx, Sox, PM) emissions
	Environmental impact on water	Cost	Calculation of social cost <sup>7)</sup> from water consumption
	Environmental impact from waste	Cost/benefit	Calculation of social cost <sup>8)</sup> from waste landfill, incineration, and recycling

1) Exchange rate on Dec. 31, 2020: KRW 1,088/USD, KRW 1,338/EURO  
2) G.Psacharopoulos and H.A. Patrinos, Returns to investment in education: a further update (2004)  
3) BCG, The cement sector: a strategic contributor to Europe's future  
4) G. Hutton, Global costs and benefits of drinking-water supply and sanitation interventions to reach the MDG target and universal coverage (2012)  
5) EPA, Technical Support Document: Social Cost of Carbon, Methane, and Nitrous Oxide Interim Estimates under Executive Order 13990 (2021)  
6) CE Delft, Environmental Prices Handbook, EU28 Version (2018)  
7) S&P Global TruCost PLC, Natural capital at risk: the top 100 externalities of business (2013)  
8) A. Rabl, J. V. Spadaro and A. Zoughaib, Environmental impacts and costs of solid waste: a comparison of landfill and incineration (2009)

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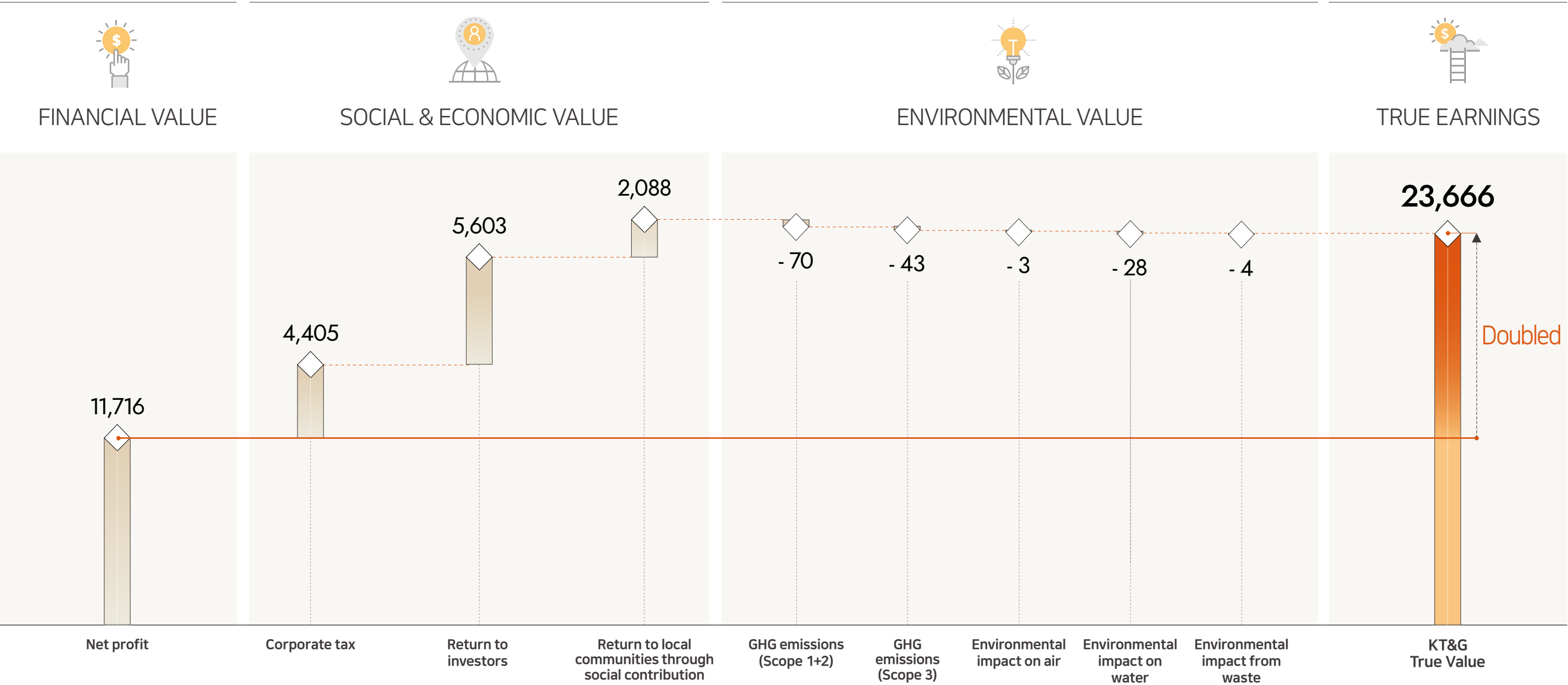
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Result of KT&G’s integrated value creation in 2020

The integrated sustainability management value that KT&G created from January 1 through December 31, 2020 reached KRW 2.37 trillion. The figure was more than twice our net profit created for the year.

(Unit: KRW 100 million)



\* The above result was calculated in order to manage social impacts from our sustainability management activities and establish the direction of social value based on several assumptions, therefore, completeness is not guaranteed. Being subject to change if the latest research results are updated, this information should not be considered as part of financial performance disclosure.



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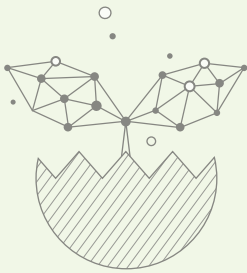
Pillar 1.



"KT&G will effectively reduce climate change risks by clarifying the management's role and responsibility for environmental issues and risks and establishing environmental management system."

Pillar Highlights: **Environmental Management Vision System and Directions**

With the aim of reducing climate change risks and pioneer new business opportunities, KT&G established a vision and strategy system for environmental management named "KT&G Green Impact" centered on mitigating climate change impacts and shift into circular economy. We are promoting various projects to effectively achieve a mid-to-long-term goal in terms of GHG reduction, carbon neutral, water saving, and waste recycling. We also endeavor to cut negative environmental impacts across entire value chain beyond just worksites and to create shared value with stakeholders.



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# ENVIRONMENTAL MANAGEMENT VISION SYSTEM

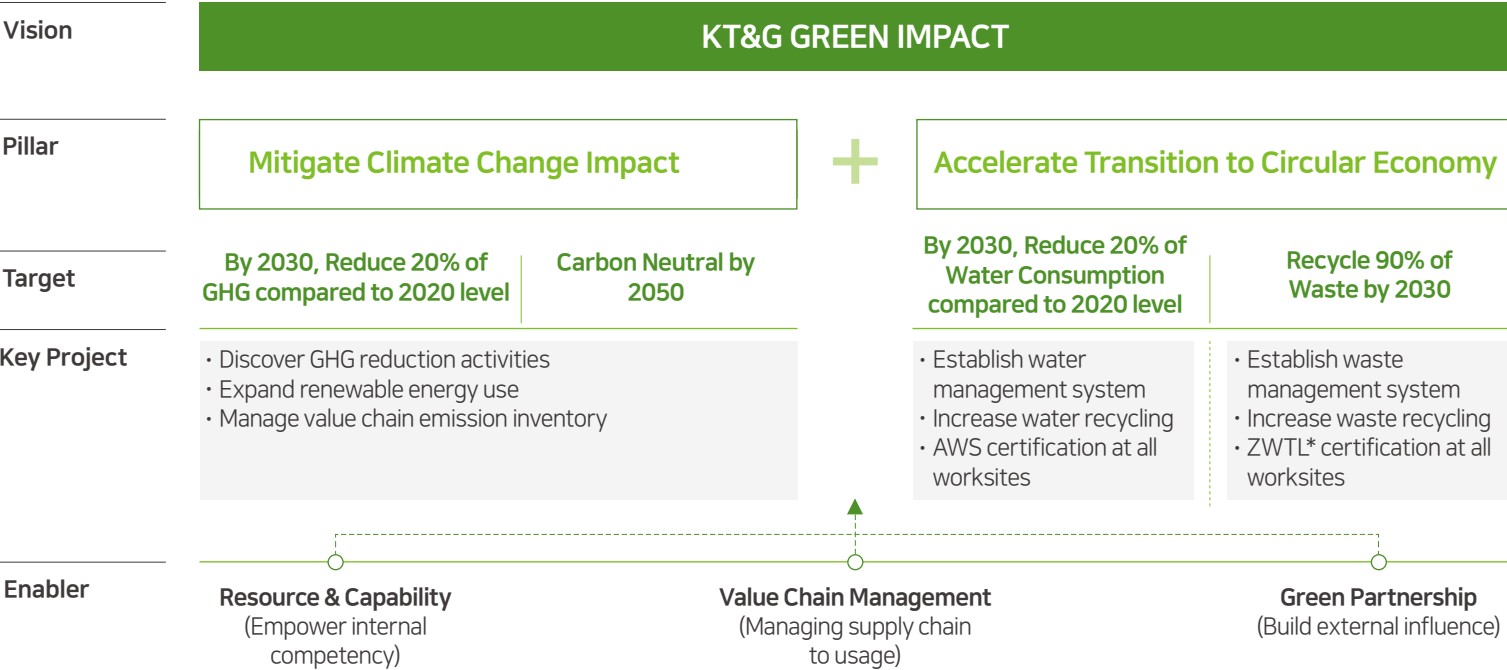
## Establishing the environmental management system

KT&G has established a vision and strategy system for sustainable environmental management to create shared value for the company and stakeholders. To minimize negative environmental impacts in business operation and entire supply chain and to quickly shift into a circular economy, we have defined areas to be intensively managed. Notably, we intend to systematically manage GHG reduction, water, and waste control by setting mid-to-long-term goals considering the essence, urgency, and need for regulatory response by area.

To minimize negative impacts from GHG emissions and strengthen the responsibility for emitting GHG throughout the value chain ranging from the supply chain to customers, KT&G has established mid-to-long-term goals following the SBTi (Science-Based Target Initiative) guidelines. By 2030, we aim to reduce GHG emissions by 20% compared to 2020 and further contribute to creating a low-carbon society by achieving the 2050 Net-zero policy in entire value chain.

We set mid-to-long-term goals to reduce water consumption by 20% by 2030 and to achieve a 90% recycling rate for internal waste in our business sites to minimize the environmental load throughout the production process and at the same time accelerate the transition to a circular economy. By strengthening and fulfilling responsibilities for environment required by the global society, we will create the “KT&G Green Impact.”

### Environmental Management Vision System

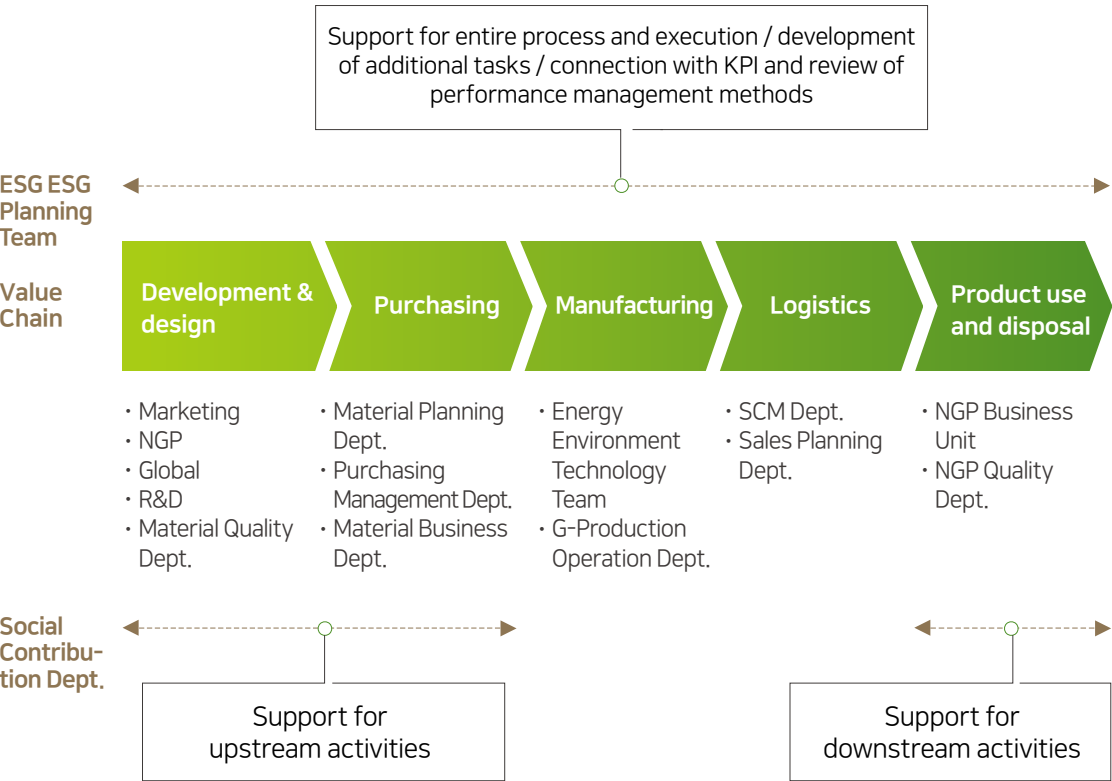


\* Zero Waste to Landfill

## Capability of responding to environmental management

We aim to organically collaborate with departments in charge of each value chain stage to achieve the 2030 environmental management goal. Our working level TF, led by the ESG Planning Team, will discuss and manage tasks and performances across the value chain ranging from product development and design to purchasing, manufacturing, logistics, customer use, and disposal.

### Role and responsibility in executing detailed environmental management tasks by stage



# RESPONDING TO CLIMATE CHANGE



## Analysis of GHG emissions in the value chain

KT&G TCFD Report



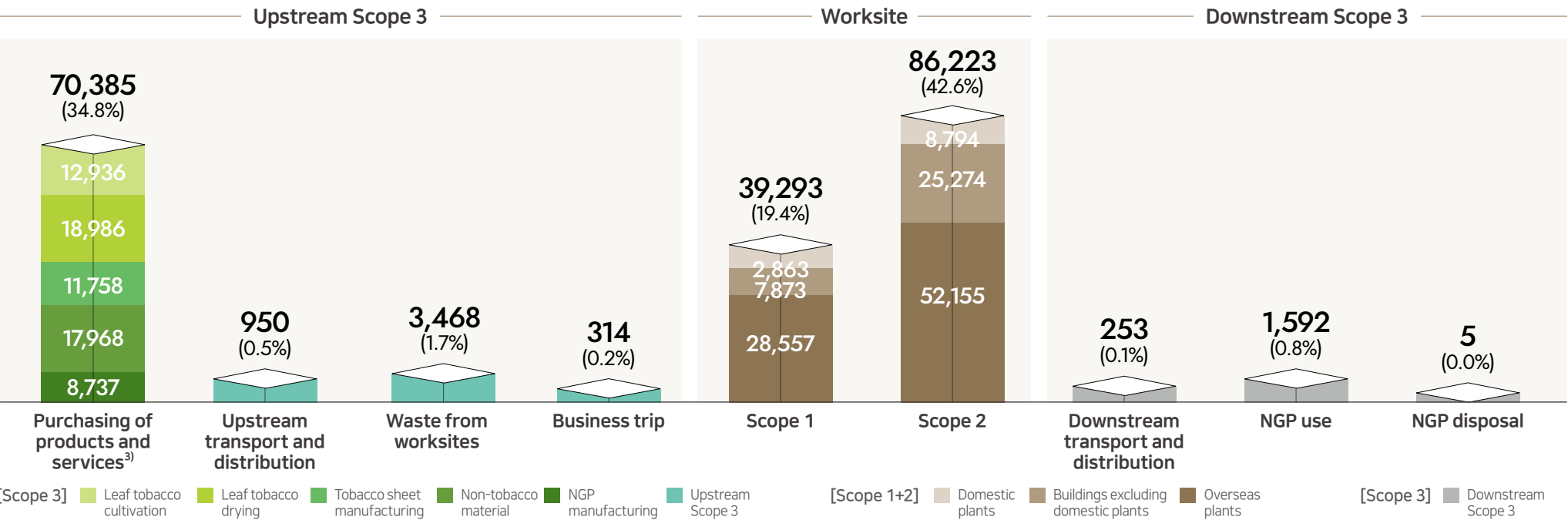
### Analysis of GHG emissions in worksite and supply chains

KT&G is aware of the negative impact of climate change on the environment and society and intends to expand the area of managing GHG throughout the value chain to fulfill our corporate roles and responsibilities. We will calculate and disclose GHG emissions not only from direct emissions (Scope 1) and indirect emissions (Scope 2) generated during production, but also other indirect emissions (Scope 3) generated upstream and downstream activities. We will continue to monitor the status of GHG emissions in the value chain and establish a more reliable GHG management system by upgrading the means of managing data and calculating emissions for some activities (e.g., emissions from cultivating and drying leaf tobacco overseas).

### GHG emissions in worksite and value chain

In 2020, the total amount of GHG emitted in KT&G's value chain reached 202,483 tons, 62% of which was generated from internal tobacco manufacturing process. Remaining 38% was emitted outside the business sites, such as cultivating, drying, and distributing leaf tobacco. Compared to Scope 3 of other tobacco companies (about 80% of the industry average), KT&G has a relatively small impact from Scope 3 emissions due to different environments for cultivating and drying leaf tobacco. According to the WHO FCTC<sup>1)</sup> report<sup>2)</sup>, the tobacco industry has a high proportion of emissions from chemical fertilizers for leaf cultivation and the use of coal or wood for drying. However, in Korea, KT&G has increased the use of eco-friendly fertilizers through joint research and collaboration with leaf tobacco farms over the past few years. We have also expanded the use of LNG instead of coal for leaf drying, ensuring lower carbon leaf tobacco cultivation and drying process over overseas peers. KT&G is devoted to further minimizing Scope 3 emissions through collaboration with the farms and expansion of renewable energy sources instead of fossil fuels.

### GHG emissions in the value chain in 2020



1)WHO FCTC: WHO Framework Convention on Tobacco Control 2)WHO FCTC (2018). Cigarette Smoking: An assessment of tobacco's global environmental footprint

3)Excluding emissions from overseas leaf tobacco cultivation and drying

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## Nurturing energy and environmental management capabilities

### Launching a dedicated organization and expanding the scope of management

KT&G established the environmental management system in 2020 and organized the Energy Environment Technology Team dedicated to operating the system under the Manufacturing Headquarters. The team is responsible for planning improvement tasks such as optimizing energy efficiency and introducing renewable energy, and being in charge of managing environmental data of each plant. The team also cooperates with the ESG Planning Team responsible for presenting an environmental management vision, reviewing mid-to-long-term ESG strategic directions, and responding to external ESG evaluations to create synergy.

Notably, it has designated plant managers for each area (energy/air/water quality/waste), established an organic cooperation system between domestic business sites, and formed a pool of energy technicians to facilitate GHG reduction activities.

We also introduced the 'energy patrol system' to monitor profligate consumption of power and lights at welfare facilities such as bathrooms, restrooms, and gyms as well as plants to pursue energy use optimization.

### Establishing environmental management policy

The company established the “KT&G Environmental Management Policy” containing our will to develop a global top-tier environmental management system, spread green impact through environmental management, and build continuous cooperative relationships with key stakeholders.

Moreover, we have integrated management standards for energy and GHG, water, and waste areas and distributed the "Energy Environment Business Guidelines," a working-level standard for application to the actual work environment.

KT&G will build substantial energy and environment management system based on the policy and guidelines.

KT&G Environmental Management Policy

### Preparing a green procurement policy

In terms of the purchasing status of tobacco and packaging materials, we established an independent policy that stipulates the targets, scope, and procedure of green purchasing in August 2020. This policy applies to non-tobacco materials excluding leaf tobacco for cigarettes and NGP.

KT&G classifies “green” or “eco-friendly products” into two categories: externally certified products and company-selected products. The former refers to materials with marks or certificates from domestic and global certification agencies, including environmental marks or FSC certification, while the latter refers to those that contributed to reducing environmental impact through the company's efforts, including materials such as paper filters and inner paper liners.

As of 2020, 9 eco-friendly materials have met KT&G's green purchasing policy and KRW 47.9 billion was paid to the procurement of those materials. The figure accounted for 7.8% of total materials costs.

KT&G will continue to upgrade the definition of green purchasing to satisfy the level required by the global society and gradually expand green purchasing.

KT&G Green Procurement Policy

### Certification on environmental management system

Since the first obtainment of ISO14001 certification for Sintanjin, Yeongju, and Gwangju plants in 2005, the company has set the environment management system meeting global standards and managed and verified the environmental management policy under the supervision of a dedicated department. As of 2021, our five plants in Sintanjin, Gwangju, Yeong, Cheonan, and Gimcheon completed the obtainment or renewal of ISO14001 certification. We will continue to further manage environmental information to effectively respond to environmental regulations at home and abroad by developing and integrating IT-based data management system.



ISO14001 certification



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Conducting environmental education and campaign

KT&G holds various environmental campaigns and educational activities to enhance the understanding of ESG and environmental fields for our employees and partners and to provide staff in charge of energy and environment with professional knowledge on environment.

The dedicated team is directly involved in creating video content and provides environmental information required for process and operation in collaboration with external professional organizations.

Moreover, we are promoting various internal campaigns, such as eco-friendly idea contest and energy-saving poster contest and posting the winning posters in all plants to help employees become aware of the need to save energy and put them into practice.

Environmental education results

Content	Target	Educated by	Date
Better response to air and water related laws	6 employees in charge of environment at plants	Internal personnel engaging in regulation at Management Policy Office and R&D Planning Office	March 2020
Practicable ESG management (video)	All employees in manufacturing and raw materials sectors, all partners working for plants	Making video education materials by Manufacturing Div. (online)	May 2021
Benchmarking of excellent company in energy saving	36 energy technicians in manufacturing and raw materials sectors	Foundation of Agri. Tech. Commercialization & Transfer (online)	June 2021
Heat and electricity saving	36 energy technicians in manufacturing and raw materials sectors	Korea Management Association (online)	June to July 2021
Participation in working session of the ESP food division	Head of Energy Environment Technology Team, staff in charge of energy at manufacturing and raw materials plants (6 persons)	Korea Energy Corporation	July 2021
Cultivation of GHG managers	Staff in charge of energy at the head office and manufacturing and raw materials plants (6 persons)	Korean Foundation for Quality	May and August 2021

\* ESP(Energy Saving through Partnership)



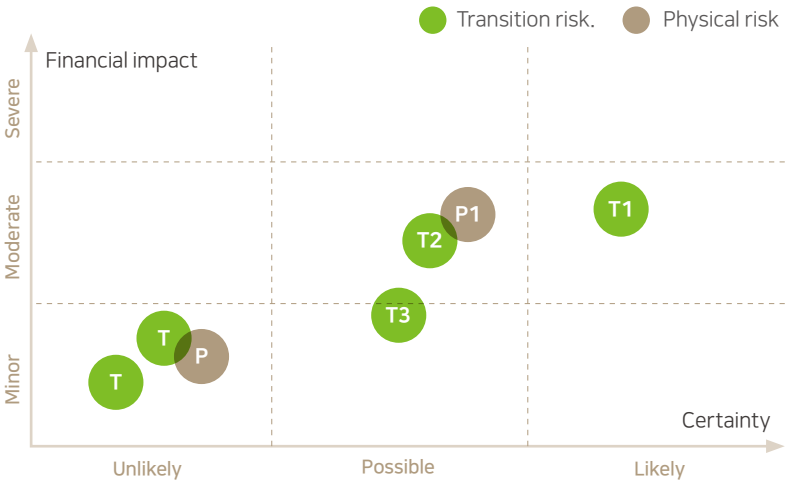


## Climate Change Risk Management

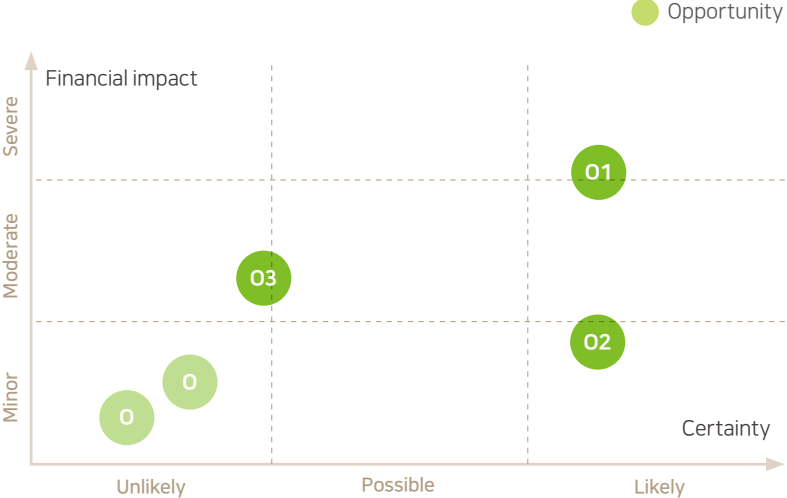
### Risk and opportunity analysis

KT&G analyzed the impact of climate change on business and established a response strategy to reduce climate change risks. From the company's perspective, we identified transition and physical risks and opportunities that may arise from climate change and evaluated the importance depending on the potential risk and opportunity for each factor and the financial impact on business. After discussion on integration and advice from external professionals, we identified risk areas to be preferentially managed and the directions of reducing risks. Going forward, we will work on regularizing the risk management process considering company-wide strategies.

Climate change risk assessment



Climate change opportunity assessment



#### Identifying and assessing risks

Policies and regulations risks (T1)	As a company subject to the emission trading scheme, it is mandatory to purchase the emission permit if emissions exceed the quota. Additional financial burdens are anticipated due to tightening global carbon regulations and spending on renewable energy transition.
Market risk (T2)	The production cost of leaf tobacco is also expected to increase due to the rise in energy prices such as LNG, electricity, and gasoline, and the cost of raw materials.
Reputation risk (T3)	The prolonged water shortage due to climate change may act as a risk to the tobacco industry, a water-intensive industry, such as intensifying competition for water supply.
Emergency risk (P1)	The operating costs are predicted to increase due to supply chain damage due to abnormal weather such as high temperature, typhoons and heavy rains, quality fluctuations, troubles in distribution and inventory.

#### Measures to reduce risks

We intend to minimize the financial burden by calculating emissions BAU (Business-as-usual) to predict shortfalls against quotas, monitoring emission permit prices, and preemptively implementing reduction measures.
We monitor energy use within the company and promote and invest in internal activities to improve energy efficiency.
To reduce water supply risk, we evaluated the level of risk for each domestic and overseas business site and established a risk management system.
We identify the weather patterns in the supply and demand area for leaf tobacco and major materials and prepare countermeasures to prevent damage to the supply chain in advance.

#### Identifying and assessing opportunities

Products and services (O1)	It is expected to proactively respond to customer's demand for eco-friendly products by increasing sales of low carbon products and reducing waste and to contribute to improving resource circulation within the value chain.
Resilience (O2)	Participating in global initiatives on climate change/renewable energy is expected to take mid-to-long-term measures to respond to risks and enhancing capability.
Resource efficiency (O3)	Improving the performance of production facility and energy efficiency can reduce operating costs, including energy purchase costs, and contribute to the transition to the low carbon industry.

#### How to seize opportunities

We will develop products satisfying customer needs by expanding the recycling of waste NGP devices and use of eco-friendly materials. We will also minimize environmental burden the entire process by facilitating zero landfill waste certifications.
We have been proactive in responding to global initiatives such as CDP Climate Change and CDP Water Security, thereby reinforcing our internal capabilities for managing environmental risks such as reducing GHG and managing water resources.
We aim to decrease operating costs by reducing GHG emissions, improving plant facilities' energy efficiency, using electric vehicles, and reducing emissions across the entire value chain by distributing energy-efficient devices to leaf tobacco farms.

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Enhancement of GHG Emission Management

Reinforcing the responsibility for GHG emissions

Establishing a science based GHG reduction target

In order to specifically reduce the negative impact of GHG emissions and respond to climate change, KT&G has established a mid-to-long-term goal aimed at reducing GHG emissions by 20% throughout the value chain until 2030 compared with 2020 based on the SBT (Science Based Target).

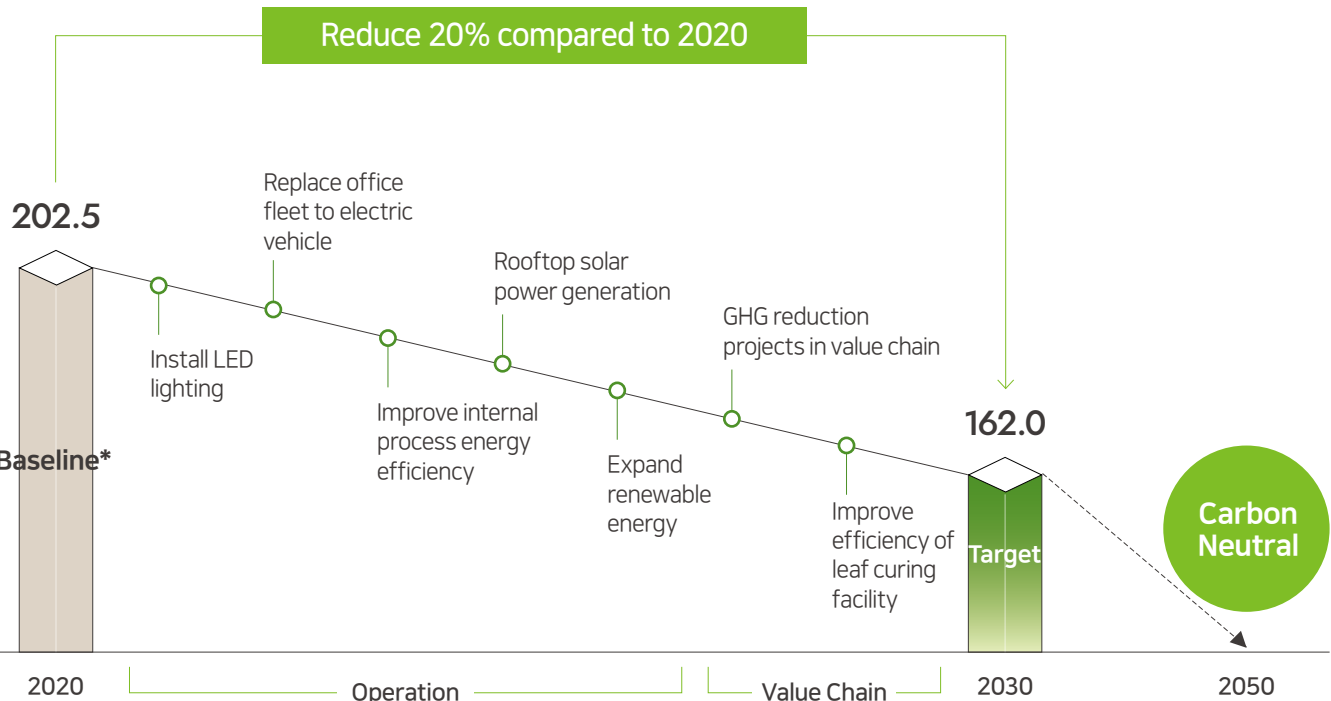
Furthermore, we set a GHG reduction goal relevant to the Paris Agreement, which purports to limit global warming to well below 2°C, compared to pre-industrial levels, and expands the scope of environmental management responsibility to the entire business value chain, achieving carbon neutrality with partners in 2050. To this end, we will expand the use of renewable energy and review investments in external GHG reduction projects beyond reducing internal energy consumption at worksites.

Discovering major mid-to-long-term reduction measures

With a goal to successfully achieve the mid-to-long-term GHG reduction goal by 2030, KT&G comprehensively reviewed the short-term potential, reduction potential, and effectiveness and selected essential items for GHG reduction. We have selected feasible tasks in various reduction areas such as improving energy efficiency, converting fuel, introducing renewable energy, and reducing fossil fuel use, and intend to preferentially promote cost-effective projects through cost-benefit analysis.

Mid-to-long-term GHG reduction goal and implementation plan

(Unit: 1,000 tCO<sub>2</sub>eq)



\* Baseline includes the entire value chain. Scope 3 emission could be re-calculated after advancing data management system, and the figures are not officially verified.

**Expanding LED lights at plants** | Replacing the lights to LED in major plants to reduce power consumption and energy costs

**Electric vehicles for business use** | Replacing all company vehicles with EVs by participating in the K-EV100 (the project of supporting Korean Zero Emission Vehicle) project and expanding the infrastructure for charging

**Improving the energy efficiency of internal processes** | Improving steam boiler operation, applying an inverter control to air compressors, replacing with high-efficiency utility facilities, introducing FEMS (Factory Energy Management System), etc.

**Solar power generation** | Reducing power consumption by generating Solar power from the manufacturing plant's roof.

**Expanding renewable energy** | Facilitating the use of renewable energy using the K-RE100 support

**Value chain-related external projects** | Discovering items for reducing GHG related to CSR activities

**Improving efficiency of dryers used in leaf tobacco farms** | Reducing energy consumption by restoring and reusing the heat generated from drying leaf tobacco

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Rational energy use at workplaces

We endeavor to minimize unnecessary energy waste at worksites and optimize process operations by discovering and monitoring neglectable blind spots for energy management.

Employees at worksites are also recommended to promote rational energy use and minimization of environmental impacts from production activities to reduce GHG emissions based on energy saving.

Classification	Detailed activities
Increase facility efficiency	<ul style="list-style-type: none"><li>• Install large-scale fans for boiler and inverter for 4 pumps at Sintanjin Plant</li><li>• Adopt inverter to two dust collectors at Yeongju Plant</li><li>• Increase efficiency by overhauling cooling water line pumps at Yeongju Plant</li></ul>
Prevent energy loss	<ul style="list-style-type: none"><li>• Repair and replace equipment through regular steam trap diagnosis (39EA)</li><li>• Set energy-saving mode for 332 PCs</li><li>• Install standby power interrupters for 262 electronic devices including water purifier, air purifier, and printers</li><li>• Quarterly compressed air leak check and rapid countermeasures against leak case</li></ul>
Introduce high-efficiency LED lights	<ul style="list-style-type: none"><li>• Save power consumption by adopting LED lights to the plants</li><li>• Saved 24W on average by installing 5,887 LED lights</li></ul>

Expanding the use of renewable energy

KT&G contributes to spreading renewable energy generation by operating solar power generation facilities using idle sites in Sintanjin, Yeongju, and Gwangju plants.

As of 2020, a 2,209kWp solar power generation facility produced 1,977.5MWh of eco-friendly energy. Seven buildings owned by KT&G, including Daechi Tower and Euljiro Tower produced 383.5kWp power for building operation.

In addition, we reduce the electricity bills and GHG emissions by installing window solar panels for 96 households in the Sintanjin Plant and the Human Resources Development Center. KT&G will actively seek and practice ways to expand the use of renewable energy, including reviewing the installation of solar power on the roof of all plants.



# WATER RESOURCE MANAGEMENT



## Water Risk Management

### Establishing a Goal to Reduce Water Consumption by 2030

Water is an essential resource for KT&G to cultivate high-quality leaf tobacco and manufacture tobacco products that satisfy our customer's needs. Notably, there is a severe polarization of water resources worldwide, such as extreme droughts in certain areas due to abnormal climate change. Accordingly, KT&G has established a mid-to-long-term goal to effectively use water as it is our essential resource and reduce the amount of water used within our business sites by 20% by 2030 compared to 2020. In the future, we will continue to manage water risk and apply water recycling technology with the focus on strengthening our water management capabilities at the level of leading global companies.

### Strengthening Water Resource Management Capabilities

The Energy Environment Technology Team under the Manufacturing Headquarters manages water resources at domestic business sites, whereas the G-Production and Operation Department and HSE managers are responsible for overseas subsidiaries. We regularly monitor the amount of wastewater used and disposed of at the site and collect data on water withdrawal based on bills. To achieve the mid-to-long-term goal of reducing water consumption in 2030, we actively review water recycling measures at all business sites, including overseas subsidiaries



### Water data management status

### Activities of Improving the Infrastructure to Reduce Water Consumption

The analysis result of the amount of use by each place of service allowed us to identify opportunities to reduce sanitary water and cleaning water. Accordingly, KT&G has replaced water-saving faucets (189 sites) and showerheads (166 sites) to save as much water as possible in bathrooms, toilets, and cleaning stations. We could also reduce the amount of water used in each location by 15 to 67% through the activities of improving water infrastructure, such as reducing the volume of the toilet tank. Furthermore, we also reprocess the wastewater generated from the plants to reuse it as water for cleaning towers or cooling towers, with our efforts to reuse the water within our business sites. We actively consider eco-friendly factors in the entire process from the design stage to contribute to reducing water consumption and facilitating water recycling.

Worksite	Responsible department	Data collection term	Data collection method
6 domestic plants	Energy Environment Technology Team	Monthly	Bill, ERP system
3 overseas plants	G-Production Operation Department	Monthly and daily	Bill, ERP system, handwriting, etc.

\* Domestic plants (Sintanjin 1, Sintanjin 2, Yeongju, Gimcheon, Gwangju, Cheonan), overseas plants (Indonesia, Russia, Turkey)



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Water Stress Management by Business Site

KT&G conducted a water risk assessment for seven domestic and overseas business sites based on the results presented by the World Resources Institute's Water Risk Atlas. Remarkably, among the five water risk levels, the business sites in Indonesia and Turkey were identified as 'High' at present. It is believed that the cost burden will increase mainly due to the enhanced local regulations and increased water consumption at the business site. KT&G will strive to identify measures and plan strategies in various ways, conducting follow-up tasks for efficient water use and water risk reduction.

Water stress at worksite



**Indonesia (High)** | Our worksite in Indonesia uses groundwater as water resource, and we strictly comply with local water-related laws and regulations. Going forward, we will review measures to reduce water risk, such as securing other water resources (rainwater, etc.) that can replace ground water.

**Turkey (High)** | Staff of the Utility Team is in charge of managing water use. We will continuously work to prevent disruptions to the production process due to water shortage.

Water Risk and Opportunity Analysis

KT&G identifies risks and opportunities that may arise from the aspect of using and managing water for each domestic and overseas business site and conducted a materiality assessment according to the probability of occurrence by risk and opportunity factors and financial impact, taking into account the opinions of the relevant department and external experts. Based on the analysis result of the evaluation, we expect to create opportunities by linking with projects and taking measures to minimize water-related risks.

For instance, the supply and demand of leaf tobacco may become unstable, or the purchase cost may increase due to abnormal weather (drought, flood, etc.) in leaf tobacco farming regions. However, less damage from leaf tobacco supply and demand from natural disasters is expected to occur in domestic sites with stable inventory management. On the contrary, it may incur short-term financial burdens for overseas cases, but risks can be gradually reduced by replacing leaf tobacco of similar quality. Moreover, with more support in financial affairs and technology of reducing water consumption in business sites with high water risk and leaf tobacco cultivation areas, we can contribute to creating an environment in which all business sites and partners use water efficiently.

In the mid-to-long term, we intend to establish measures to offset the impact on the local community due to the manufacturing of products and water intake. We will also review the water returning project, which allows the amount of water used by KT&G to be returned to the local community based on the business value chain, such as leaf tobacco farms and regions where our business sites are located.

# WASTE MANAGEMENT



## Waste Emission Management

### Establishing Mid-to-long-term Goals for Waste Management

The importance of strengthening the capacity to manage waste generated at business sites is emerging, followed by introducing the expanded water recycling rate policy and the management system of resource circulation performance. The amount of waste generated fluctuates widely due to uncontrollable factors, i.e., increased production and internal construction. We consider ways to expand waste recycling in diverse ways and create the value of recycling resources along with efforts to reduce the amount of waste generated. Additionally, KT&G has set a goal to achieve a 90% waste recycling rate for all business sites by 2030 and establish an environmental management system. We will strive to expand water recycling through global landfill waste zero certifications (ZWTL, etc.). Furthermore, we set and manage key performance management indicators to secure the effectiveness of waste management and continue executing the mid-to-long-term goals.

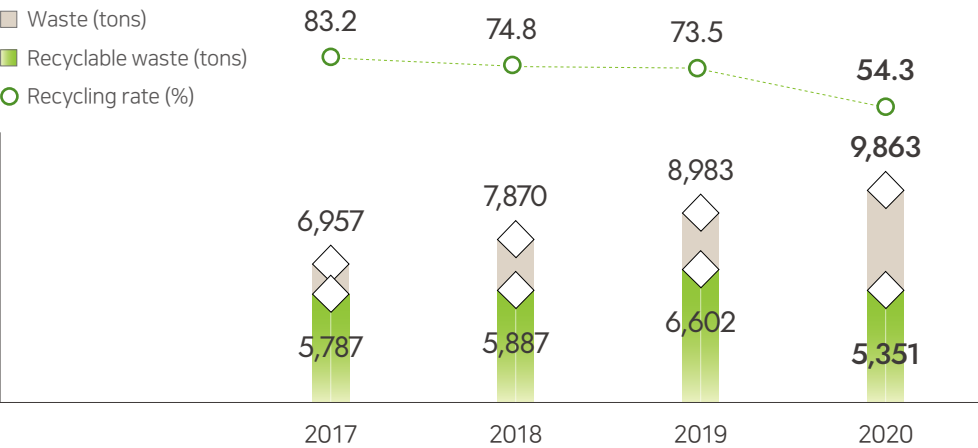
### Status of Waste Generation at Business Sites

KT&G is establishing a waste management process to reduce the amount of waste generated and maximize recycling. By monitoring the amount of waste generated by each business site and analyzing the trend, we identify significant factors of increase and decrease and sign a contract with a company with its verified consignment processing capability to entrust the entire amount of waste to landfills, incineration, or recycling. In 2020, KT&G's waste volume increased by 9.8% compared to the previous year. However, it is found that the amount of waste generated increased due to the increase in NGP and capsule production. Also, in the process of incinerating all tobacco leaf waste generated after the production, the waste recycling rate decreased by 19.2% compared to the previous year. It is considered a measure to minimize negative social and environmental impacts during the process of disposing of waste by consignment. In the future, we plan to conduct various research and seek diverse waste treatment methods, reviewing the development of mid-to-long-term recycling technology.



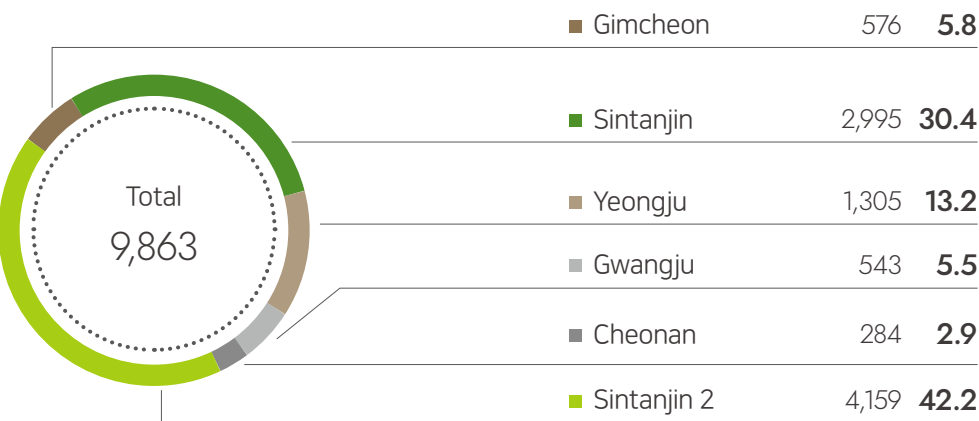
### Waste emissions at worksites

#### Waste emissions and recycling rate



#### Breakdown of waste by plant (2020)

(Unit: ton, %)



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Expanding Waste Recycling

KT&G endeavors to find recycling and waste treatment measures that used to be landfilled or incinerated. As a result, the method of disposing of some wastes, i.e., wastewater treatment sludge and synthetic waste resin, was switched to recycling, notably, with the effort of improving the process and recycling the waste, which used to be disposed of at the Sintanjin Plant 2, which a business site subject to the system of managing the performance of resource circulation, successfully exceeded the target resource circulation performance of 69.21% at an early stage, set by the Ministry of Environment (95.08% waste recycling rate). KT&G will keep striving to increase the recycling rate by identifying the characteristics and uses of each type of waste, discovering companies that can handle recycling, and developing technologies to improve recycling.

Additionally, we simplified the packaging of materials delivered to our partners as much as possible through consultation to reduce packaging waste that may be unnecessarily generated in the field. We also reduce about 13 tons of waste per year due to the recycling of packaging materials, such as replacing plastic with paper and reusing disposable pallets. We also consistently carry out practical activities to reduce waste generated at business sites and employees’ living facilities. Through training and guidance for on-site workers, we instruct them to strictly recycle waste and continue to improve the waste disposal facilities by re-sorting on-site waste collection boxes.

Waste management at overseas worksites



Indonesia

- Managing waste data quarterly
- Reporting waste emission according to the local regulation of the Ministry of Environment
- Considering recycling rate when selecting waste treatment companies



Russia

- Gathering monthly waste data and connecting them with ERP system
- Promoting separate collection of paper box, plastics, OPP film, and metals



Turkey

- Monitoring waste emissions monthly
- Treating waste through local companies authorized by the Ministry of Environment
- Conducting separate collection according to the waste management code



# ECO-FRIENDLINESS OF PRODUCTS



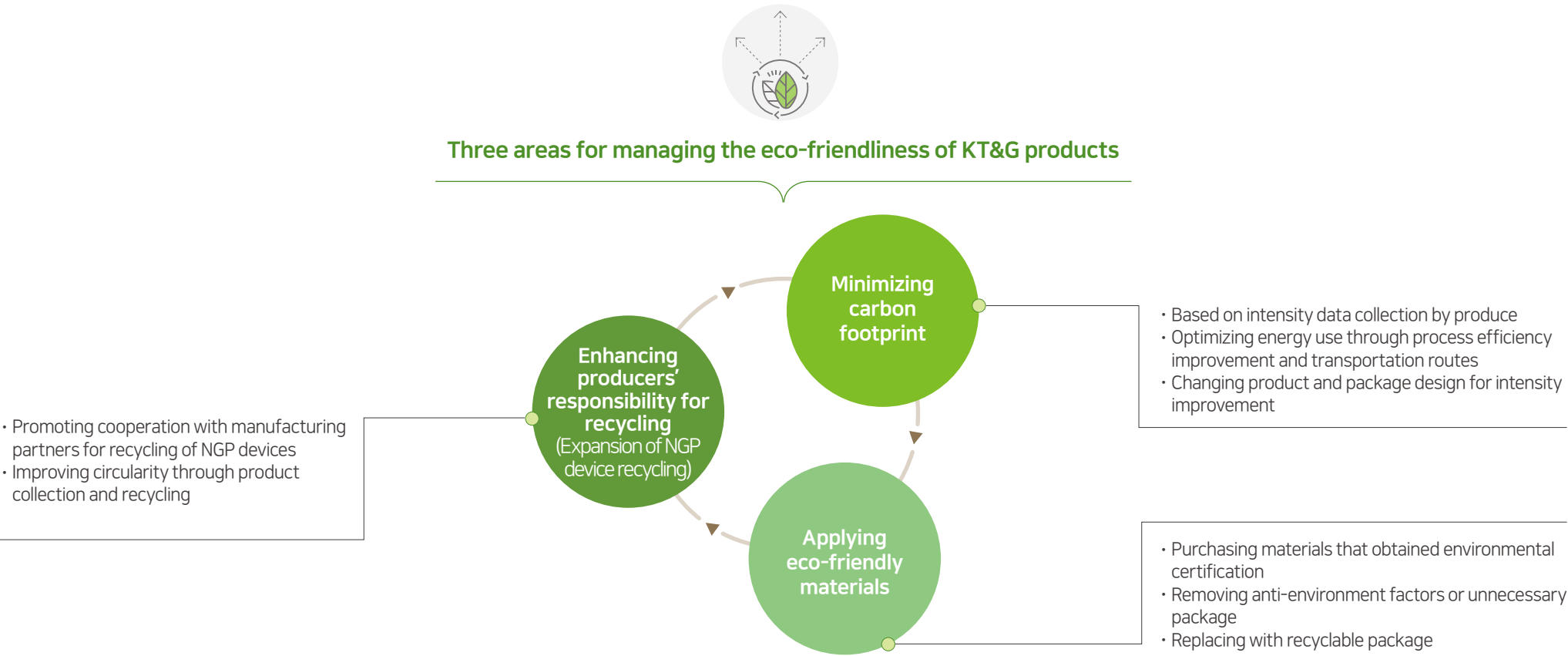
## Managing Eco-Friendliness of Products

### The Framework of Managing Eco-Friendliness of Product

Regulations in each country to reduce the environmental impact of products, such as regulations on plastic waste, are intensifying. Accordingly, KT&G believes that it is obliged to reduce the environmental impact of its products from the product development and planning stage to where the product is discarded after use by customers. Thus, we intend to actively use our capabilities to conserve resources and recycle used-up products to develop more innovative and environmentally friendly products.

Accordingly, KT&G established a framework for managing the eco-friendliness of the product centered on three management fields: applying eco-friendly materials, minimizing carbon footprint, and strengthening responsibility for recycling producers (recycling NGP), in consideration of the environmental load generated from the viewpoint of the business value chain. Therefore, we aim to assign responsibility and management roles for environmental impacts at each stage of the value chain and lay the groundwork for eco-friendliness through collaboration between the company's business departments, such as manufacturing, raw materials, and R&D for sustainable product design.

We aim to use recyclable materials considering eco-friendliness and harmfulness and strive to minimize the carbon footprint by developing products or technologies that can reduce greenhouse gas emissions in terms of the entire process. Furthermore, we will strengthen and manage the social responsibility of producers in cooperation with partners. We will also reduce the environmental burden on future customers by producing and selling eco-friendly products and preoccupy the customer market that values eco-friendly factors to contribute to creating more added value.



Establishing Mid-to-long-term Goals for Managing Product Eco-friendliness

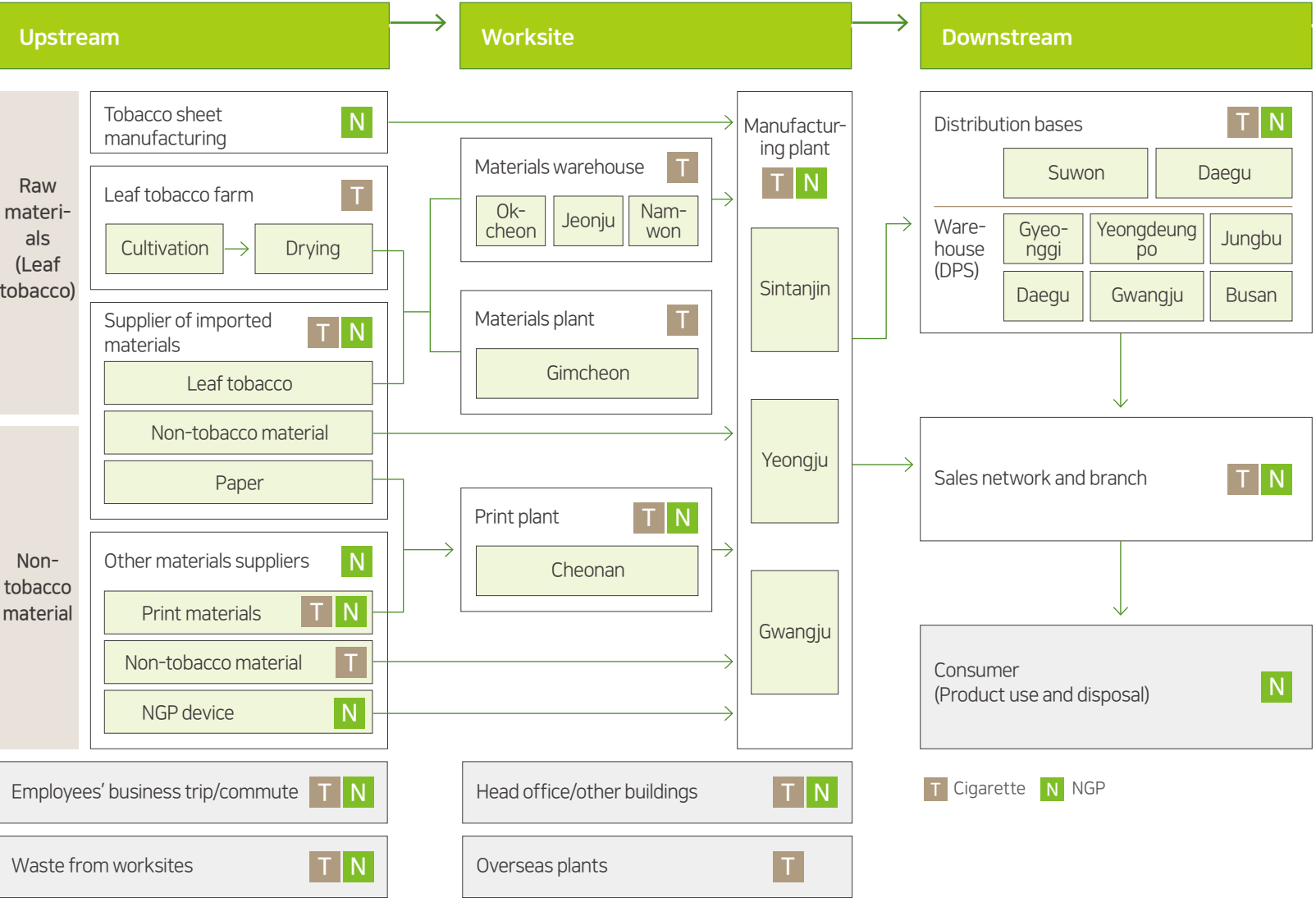
Applying eco-friendly materials

KT&G has established mid-to-long-term goals to improve product packaging and recycle the device to manage product eco-friendliness more effectively. We will enhance product eco-friendliness using easily recyclable packaging materials and use those made only from recyclable sources until 2025 to help customers recycle more efficiently. In addition to simplifying the packaging materials to facilitate recycling in the discarding stage, we prefer to use single materials considering the characteristics for recycling, such as paper, PP (polypropylene), or PE (polyethylene). However, suppose it is processed into a non-recyclable form since the combination with other materials (adhesive, etc.). In that case, we will seek ways to convert it to another material or find an eco-friendly, recyclable alternative. Especially, we aim to switch all our products currently using aluminum inner liners to paper inner liners by 2025, thereby improving the ease of recycling at the product disposal stage. In addition, we will analyze the definition of eco-friendly products specified in the existing green purchasing policy to increase the purchase of materials that meet the ways for managing product eco-friendliness.

Minimizing carbon footprint

KT&G intends to classify GHG emissions from manufacturing tobacco products by each stage of the business value chain and track and systematically manage the contribution of each product to GHG emissions. We will review whether there are any processes or products using energy inefficiently based on the standard or whether there are additional opportunities to reduce GHG emissions at each stage of the business value chain through the analysis of the emission unit. Ultimately, we aim to minimize GHG emissions generated from manufacturing the product and plan to measure and manage detailed GHG emissions through life cycle evaluation. Based on this evaluation, we plan to establish a decision-making process considering carbon footprint and environmental impact reduction from the product design stage and continue to seek ways to be recognized for our efforts to reduce environmental impact by third parties.

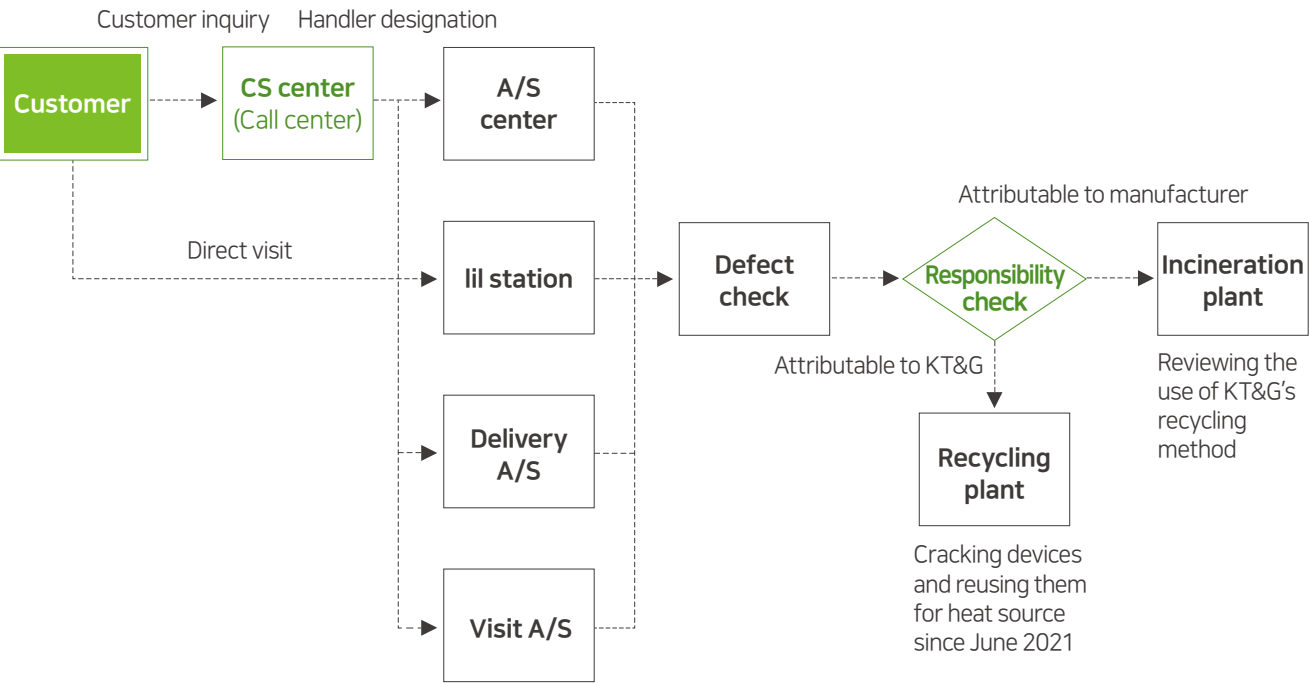
Footprint analysis considering business value chain



Enhancing producer’s recycling responsibility

To fulfill our social responsibility in discarding the product, we intend to recycle 100% of the useless NGP devices brought to KT&G by 2022. In the past, defective NGPs received from service centers, Lil Stations, couriers, and door-to-door services have been incinerated. However, in the first half of 2021, KT&G improved the method of treating NGP devices to strengthen social responsibility in the product disposal stage. Broken or defective NGP devices are sent to the recycling plant only when the fault is attributable to KT&G, and we use the shredded device as a heat source and recycle it by recovering energy. To ensure that all devices are recyclable regardless of the reasons attributable to the device failure or defect, we seek ways to collaborate with manufacturing partners. Furthermore, we will actively implement marketing activities to expand the scope of recycling the product through the voluntary participation of customers and further strengthen our social responsibility in the product disposal stage.

A/S of NGP device and post process



Strengthening Eco-friendly Research Capabilities

As the need to secure a competitive foundation for sustainability in relation to corporate social responsibility is emerging, the need for developing eco-friendly products across the industry, including microplastic issues, is continuously increasing. Accordingly, KT&G intends to create a more strategic response plan by establishing a dedicated eco-friendly research organization within the R&D headquarters. Our goal is to focus on developing eco-friendly alternative technologies while securing the base technology to respond to environmental issues, such as developing eco-friendly new materials and alternative technologies for existing materials and materials and applied technologies with appealing concepts to customers. In the short term, we will preferentially discover or develop alternative materials such as biodegradable OPP film. In the mid-to-long term, we will provide limitless investment support for developing eco-friendly technology from a product life cycle perspective.

Activities of Improving Product Eco-friendliness

KT&G is steadily implementing activities to improve the eco-friendliness of products throughout the entire process, from the stage when materials are delivered to the business site to where the product is packaged and sold. In the first half of 2021, we reviewed the tasks from the perspective of the 3Rs (Replace, Reduce, Recycle) and discovered tasks applicable in the short term, such as removing non-environmental elements of packaging materials or replacing them with eco-friendly materials. In addition, we continue our research to reduce the environmental burden caused by the use of plastics, developing an alternative for plastic.

Classification	Activities
Improving materials package	<ul style="list-style-type: none"> <li>Removing unnecessary package (paper, tinfoil, etc.)</li> <li>Applying paper to cushioning materials instead of Styrofoam</li> <li>Introducing recyclable pallets</li> </ul>
Applying eco-friendly materials	<ul style="list-style-type: none"> <li>Using FSC-certified pulp for paper materials</li> </ul>
Developing plastic alternative materials	<ul style="list-style-type: none"> <li>Developing biodegradable film instead of OPP film</li> <li>Promoting the development of eco-friendly filter</li> <li>Expanding the usability of paper filter</li> </ul>
Improving product package	<ul style="list-style-type: none"> <li>Promoting the removal of wrapping paper for NGP stick carton</li> <li>Promoting the replacement of aluminum inner liner with paper</li> <li>Reviewing the replacement of film adhesive tape with paper tape</li> <li>Promoting the minimization of NGP device gift box package</li> </ul>

RAISON HYVAA that uses paper filter



\* Replacing a part of filters with paper



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# PROTECTION OF BIODIVERSITY

## The direction of Implementing Biodiversity

As biodiversity issues have recently emerged as one of the major global agendas, corporate responses to biodiversity loss risks are becoming critical. Accordingly, KT&G examined major risks considering the characteristics of the tobacco industry by identifying the impact of business activities on biodiversity across the value chain, including business suites, and sought countermeasures.

### Facilitating Partnerships to Solve Marine Waste Issues

Globally, the threat of destructing marine ecosystems due to plastic waste is increasing, and KT&G also realized the need to solve the problem. Thus, KT&G planned a campaign to increase public awareness of protecting marine ecosystems and raised funds by signing an agreement with the Korea Marine Environment Management Corporation and Our Sea of East Asia Network (OSEAN). According to the agreement, the three organizations could carry out activities of cleaning up the beach, purifying water, and holding a junk art exhibition using the collected waste, thereby raising social interest in marine waste.

#### Seashore cleanup ac- tivity

May to Sep.  
2021



- Fact-finding of polluted areas and cleanup activity
  - Conducted 8 times on environment-related days
- Areas
  - Gyeongnam: Tongyeong Sarangdo, Sacheon Nokdo, Songcheon, Geoje Heungnam, Songdo
  - Busan: Yeongdo Cheonghak, Saha Molundae
- Installation of cigarette butt collection boxes in Busan in collaboration with the local government

#### Underwa- ter cleanup activity

May to Nov.  
2021



- Fact-finding of polluted areas and cleanup activity
  - Conducted 6 times in collaboration with local skin scuba clubs
  - Securing video of damage to the ecosystem by filming underwater activities
- Areas
  - Marine reserve area in Busan: Hyeongjedom Mokdo
  - Gyeongnam: Tongyeong Hongdo, Gukdo, Namhae-gun Sochido, Sejondo

#### Junk Art Exhibition

Sep. to Oct.  
(plan)



- Supporting the exhibition of junk arts using marine waste
- Purpose: Calling attention to the marine waste problem
- Participants: 7 artists (sculpture, installation, painting, etc.)
- Exhibition
  - Busan SangSang Madang: September 2021
  - Daechi Gallery: October 2021



### Biodiversity management plan

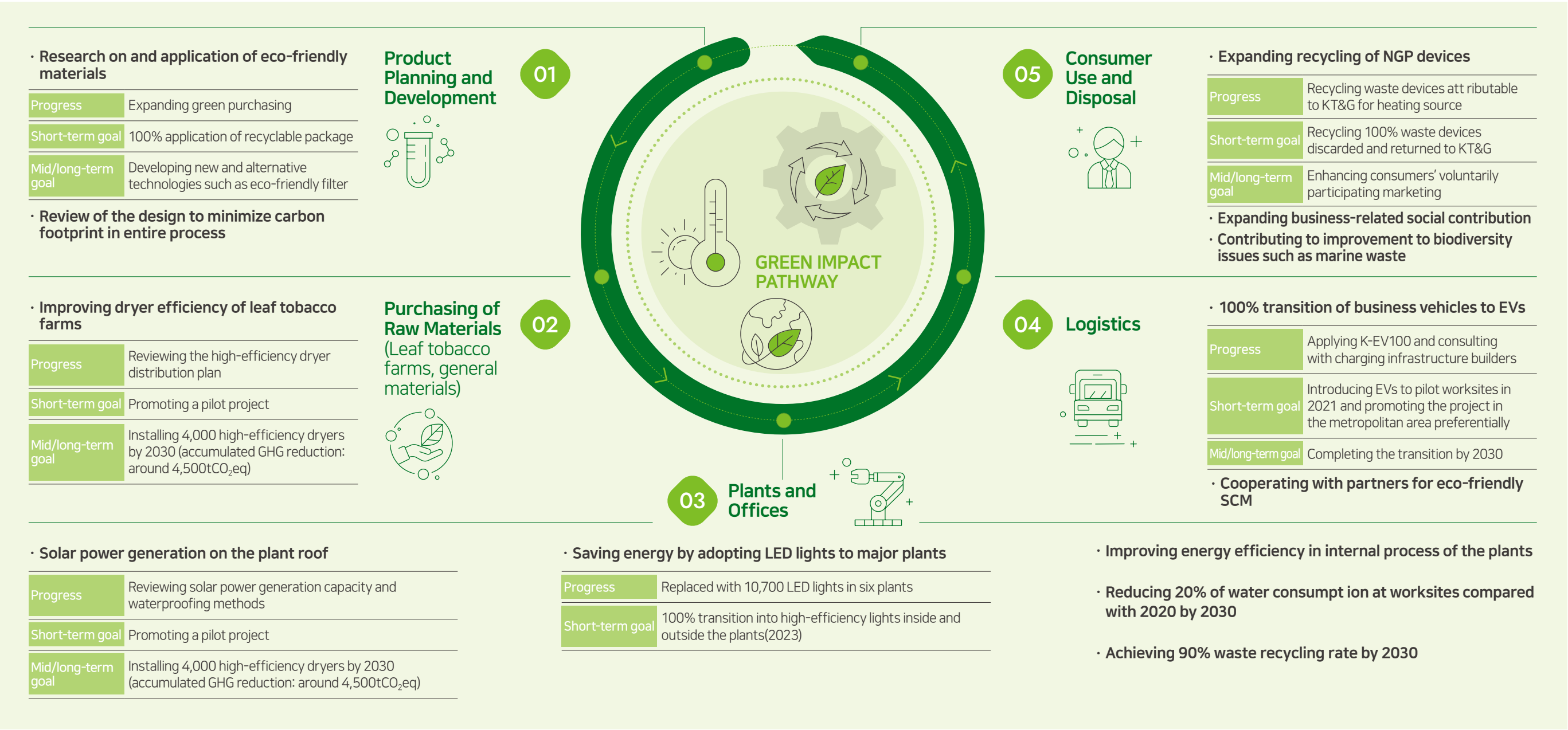
Value chain	Upstream: <b>Leaf tobacco farms</b>	Downstream: <b>Marine waste</b>
<b>Risk</b>	• <b>Increased risk of destructing cultivation land and ecosystem (soil, water resource, etc.) due to continued cultivation of leaf tobacco</b>	• Increased marine waste and threats to destroy ecosystem due to dumping cigarette butts
<b>Focused area</b>	• Developing biodiversity preservation programs and collaborative institutions	• Promoting private-public cooperation projects jointly with the Korea Marine Environment Management Corporation • Holding a junk art exhibition using seashore and underwater waste
<b>Expected effect</b>	• Maintaining the quality of leaf tobacco and building a cooperative structure for preserving ecosystem surrounding cultivation land	• Contributing to solving the biodiversity issue in the tobacco industry



# GREEN IMPACT PATHWAY

## Major environmental activities by KT&G’s value chain

KT&G implements environmental management throughout value chain ranging from leaf tobacco cultivation to distribution, manufacturing, business operation, and consumer. Based on systematic goals and strategies, we will respond to environmental issues and reinforce business sustainability.





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- NGP (Next Generation Product)
- Research and Development
- Customer Satisfaction Management

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“NGP business division is committed to continuous innovation in order to provide adult smokers with better alternative tobacco products and experiences.”

Pillar Highlights: **Growth direction of NGP business**

In spite of being a relatively latecomer in the NGP market, KT&G has taken a leading position by achieving 33% share in the domestic NGP market in 2020 based on differentiated strategies and innovativeness in just three years. We aim to take a leap toward becoming a global top tier in the NGP market by 2025 through accelerating global expansion and expanding independent platform lineups.

Pillar 2.

DEVELOPING  
RESPONSIBLE  
PRODUCTS



- ResponsibleMarketing
- Product Safetyand Quality
- NGP (Next Generation Product)
- Researchand Development
- Customer SatisfactionManagement

# RESPONSIBLE MARKETING



KT&G strictly complies with the national health promotion law enacted pursuant to the World Health Organization’s (WHO) Framework Convention on Tobacco Control (FCTC) and domestic laws related to marketing and sales of the Tobacco Business Act. Accordingly, we are actively striving to perform responsible marketing activities. Furthermore, we organized an internal control department within the company to improve the effectiveness of the policy by proactively and regularly checking whether product marketing and sales activities are carried out compliant with the marketing policy.

## Responsible marketing policy

Responsible marketing policy

KT&G pursues responsible and sustainable marketing in accordance with tobacco policies and laws enacted based on the Framework Convention on Tobacco Control (FCTC) of the World Health Organization (WHO) to enhance our value as a global brand. This serves as the foundation for building the trust of customers and stakeholders by protecting the rights of minors and customers and creating a sound industry regulatory environment for authorities.

We carry out projects and marketing only for adult customers, and our strict management prevents minors from accessing our products with the ‘Youth Smoking Prevention Campaign.’ By delivering clear and precise information about the characteristics and use of our products, we guarantee our customers reasonable choices and listen to their opinions through various channels to build trust and ensure basic customer rights.

Moreover, we are engaged in controlling and preventing illegal tobacco use in cooperation with external organizations to establish a proper distribution and marketing order. Meanwhile, as the tobacco industry encompasses various interests such as protecting leaf tobacco farmers, export, tax payment, recruitment, and distribution, we support regulatory authorities to enact a balanced and reasonable marketing regulatory policy after sufficient discussion and social consensus.

Responsible marketing policy applies to all our products, and we must comply with marketing regulations for each country and market where KT&G products are sold. In the event of a conflict with the laws and regulations of the country in which the policy is made, the more stringent principles and standards shall prevail.



### Application scope

Compliance with domestic and foreign laws	Protection of minors	Creation of a sound business regulation environment	Protection of consumer rights	Responsible product information provision
<ul style="list-style-type: none"><li>Marketing activities that comply with domestic and foreign laws including the tobacco Business Act</li><li>Preliminary and regular inspection by internal control departments</li></ul>	<ul style="list-style-type: none"><li>Youth smoking prevention campaign</li><li>Making identification check process a daily routine</li></ul>	<ul style="list-style-type: none"><li>Support for reasonable marketing regulation policies through social consensus</li><li>Cooperation with external institutions to build a sound distribution order including illegal tobacco control</li></ul>	<ul style="list-style-type: none"><li>Diversification of product portfolio and transparent information disclosure</li><li>Listening to consumer opinions through diverse channels</li></ul>	<ul style="list-style-type: none"><li>Marking of information, warning text, and warning pictures on all products</li><li>Exclusion of emphasis on specific values such as sports, sexuality, and social success during marketing activities</li></ul>



Activities for responsible marketing

KT&G enacts and amends relevant laws to manage legal risks related to marketing activities such as advertisements and promotional materials, monitors policy trends, and informs the relevant departments of the results. We also run a legal information system of preparing and distributing guidelines to comply with the laws related to marketing tasks and uses them in business and checking marketing-related legal information at all times.

We have established an internal control procedure and self-inspection checklist to check the status of implementing responsible marketing policies and a process for employees to self-check whether marketing and sales activities are carried out following the policy. We manage risks that may arise from violations of laws and regulations in advance through a regular compliance inspection process at our domestic business sites. In 2020, we examined whether related executives and employees complied with the subject of 'Marketing and Brand Advertising' and checked the awareness and compliance with the Tobacco Business Act, the National Health Promotion Act, and the Labeling and Advertising Act to report the inspection results to the management and the board of directors. In addition, we perform additional inspections for highly essential issues to identify how they are dealt with. In 2020, we mainly examined the issue of applying the 3rd graphic warnings and phrases on cigarette packs and product packaging by the Ministry of Health and Welfare for all brand designs and reflected on matters to improve.

Our overseas subsidiaries are also performing responsible marketing activities in accordance with the tobacco control laws of each country. In particular, the Compliance Officer appointed for each overseas branch regularly monitors and reports on how the responsible marketing policies are implemented and complied monthly. By establishing the advertising operation manual and marketing investment management manual in the CIC manual commonly used in global business sites, we keep the marketing activities more responsible. In addition to introducing global marketing-related laws and principles in the global compliance training course, we are providing systematic training courses to allow employees of overseas branches to implement responsible marketing principles.

Major activities for responsible marketing

Activity	Time
Providing information on legal and policy trends	Frequently
Self-inspection using a checklist - Domestic: Regular compliance check - Overseas: Monthly check by the Compliance Officer	Regular
Education on responsible marketing	Regular

Global compliance management and training regarding marketing, advertising, and sales promotion

KT&G implements compliance inspection and trainings on business related laws (Tobacco Business Act, etc.) for new and experienced employees and newly appointed managers

Target	Training content	Time	Participants
New employees	Understanding of the Tobacco Business Act	Apr. 22	8
Experienced employees	Understanding of the Tobacco Business Act	Jul. 22	13
	Understanding of the Tobacco Business Act	Dec. 22	25
Newly appointed managers	Understanding of business-related laws	May 15	24
New employees (level 3)	Understanding of business-related laws	May 22	44
Military veteran	Understanding of the Tobacco Business Act	Dec.	5

Litigation related to marketing, advertising, and promotion

Classification	Details
Case number	Seoul High Court 2020Na2047374
Date of appeal	Dec. 10, 2020 (by NHIS / lost in the first trial)
Litigants	Plaintiff: NHIS (National Health Insurance Service) Defendant: KT&G and other two companies*
Litigation content	The NHIS filed a claim for damages against the defendants, claiming that approximately KRW 53.3 billion was used to treat diseases caused by smoking between 2003 and 2012.
Litigation value	KRW 53,319,553,950
Progress	Second trial in progress
Schedule	Hearing date: Oct. 13, 2021

\* Means Philip Morris Korea Co., Ltd. and British American Tobacco Korea Co., Ltd. (including breakfast company manufactured by British American Tobacco Korea).





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# PRODUCT SAFETY AND QUALITY



## Product safety



### Certifications for reinforcing customer safety

Classification	Institution	Kind	Details	Initial certification
Leaf tobacco material	CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco)	International standard	Leaf tobacco that meets 118 safety standards	-
Non-tobacco material	KT&G	Independent standard	Preliminary safety evaluation of additives and materials and quality system conformity evaluation	-
Tobacco ingredients	CB (IECEE, global standards for electronic equipment)	Certification	Quarterly assessment of tobacco ingredients conformity	March 2000
Tobacco products	CE (EEA, principle of EU Council)	Certification	Semi-annual pre-certification of low-flammability cigarette fire prevention performance	August 2013
lil product	CB (IECEE, global standards for electronic equipment)	Certification	Safety certification system for product conformity testing for household electronic devices and similar devices	July 2020
	CE (EEA, principle of EU Council)	Certification	Integrated standard certification that satisfies all requirements of EU Council directives in relation to safety, health, environment and consumer protection	July 2020
	EAC (EAEU, Eurasian Economic Union)	Certification	Electronic device certification systems in 5 Eurasia countries (Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan)	April 2021
	PSE (METI, Japanese Ministry of Economy, Trade and Industry)	Certification	Mandatory certification according to the Japanese Electrical Appliances Safety Act	July 2020
	KC (National integrated certification mark)	Certification	Safety device and temperature control device to prevent overvoltage, overcharge, and overdischarge in accordance with the enforcement regulations of the Domestic Electrical Appliances and Household Appliances Safety Management Act	October 2017
	KT&G's distribution tracking system	Independent standard	Distribution tracking system that records and manages the specific code of all products from the main material of the device (battery, etc.) to the final packaged stage (pallet). We completed the system for product shelf life management, recall response process, and supply of optimal products.	June 2020
Workplace	ISO (International Organization for Standardization)	Certification	Maintaining a systematic quality and environmental management system in the workplace based on ISO9001 (quality management system) standards	April 2020

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Leaf tobacco material

Leaf tobacco purchased by KT&G is managed in accordance with the management standards presented by Coresta (Cooperation Center for Scientific Research Relative to Tobacco, World Tobacco Science Association), which major worldwide manufacturers and related organizations join. Before purchasing, we pre-analyze target items through a laboratory certified by ILAC (International Laboratory Accreditation Cooperation), an international testing and accreditation organization, and make purchases only if it is approved for its safety.



Non-tobacco material

We use materials with secured safety which passed additive safety verification and quality conformity assessment and are making a preemptive effort to enhance product safety by having domestic food appliances and containers certified for packaging standards for packaging materials.



Tobacco components

Tobacco manufacturers, importers, and sellers must request the tobacco component measurement institution (accredited by Korea Laboratory Accreditation Scheme) to measure the components displayed on the cigarette pack every year and obtain certification that the values labeled are correct. In 2020, KT&G requested a tobacco component measuring institution to measure the components of all products sold every quarter, and the labeled components on cigarette packs had been certified for conformity.

In addition, the KT&G Research Institute is a KOLAS testing institute and has been internationally recognized for its ability to measure tobacco components. As of 2020, it has guaranteeing products as requested by 15 importing countries for 118 products. Moreover, with advanced recognition of the ability to measure NGP products lacking international standards by KOLAS, we have been able to assure the quality of NGP products.



Cigarette tobacco products

According to the Tobacco Business Act, cigarettes marketed in Korea after July 2015 are required to apply the fire prevention technology and must be pre-certified semiannually that the technology is properly applied before it can be sold.

For this purpose, KT&G secures international testing capabilities for the technology and regularly analyzes the products to check the quality to ensure compliance with legal standards. As a result, in the first and second half of 2020, 80 products sold in Korea were successfully certified for fire prevention by the Korea Fire Protection Industry and Technology Institute, a certification body of fire prevention technology.



NGP device

KT&G continues to carry out activities to strengthen product safety throughout the entire value chain, from purchasing raw materials for NGP products to manufacturing the product. Raw and subsidiary materials used for NGP sticks are systematically managed and improved by the internal quality system as per international safety standards. The NGP device has also been certified in Korea (KC) and overseas (CE, CB, EAC, PSE). And we continue to secure certifications that meet country-specific requirements as we expand the number of countries to export to. Notably, we are eager to enhance user safety by conducting a conformity assessment for tobacco components and applying only certified ingredients to devices to produce and sell the products that satisfy the EU Tobacco Products Directive. Recently, in addition to product safety, we are devoted to comply with international regulations and restrict the use of conflict minerals (gold, tin, tungsten, and tantalum), which are being urged by the international community to regulate their use.

Chemical Safety

Chemical management process

KT&G systematically controls all chemical substances handled at the workplace to comply with recently strengthened environmental safety regulations and reduce harmfulness. We investigate all chemical products and substances used in the workplace every two years in accordance with the K-Toxic Act and report to the Ministry of Environment, and this information is disclosed in the Chemicals Comprehensive Information System. In addition to this, we conduct safety inspections at least once a quarter to maintain the storage, transportation, and management of the chemicals being handled and are actively taking steps to prevent accidents.

When introducing new chemical substances, we review the laws and regulations and carry out chemical safety evaluations in advance to comply with environmental safety-related laws and to avoid using hazardous substances. All chemical substances are carried in only when each warehouse meets the conditions specified in the SHE Qualification (Safety and Health Environment Review) prior to placing a purchase order (P/O). Based on the component information entered by each chemical supplier, the SHE manager in each plant reviews licenses for each sector and ensure compliance with legal standard. The substances are carried in only when the regulatory review of the substance is found to be appropriate. If it is necessary to correct or supplement data, we request the supplier to provide the required information. Based on a systematic chemical management process, we aim to reduce the risk of responding to chemical regulations for each plant and operate and manage chemicals and workplaces more safely.

Chemical Substance Comprehensive Information System



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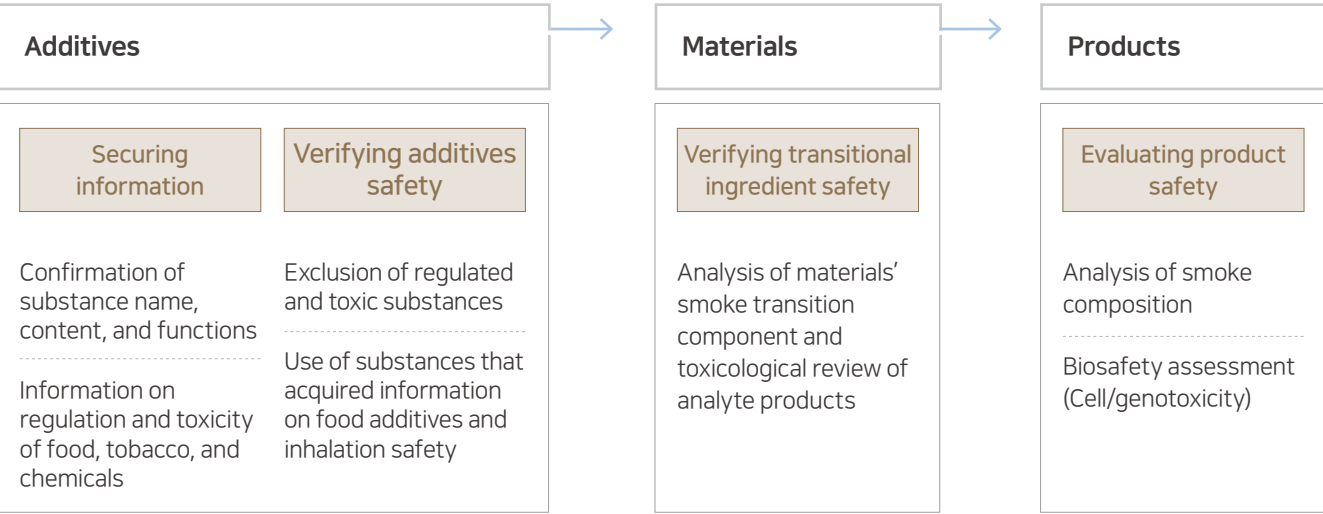
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Preliminary safety evaluation procedure for additives and materials

KT&G develops reliable products according to the principle of product responsibility and guarantees safety from the initial stage of reviewing product development to ensure customer safety. We check whether all chemicals used conform to domestic and foreign food/tobacco/chemical regulations and only use materials with secured safety through scientific evidence-based evaluation such as literature review and toxicity evaluation. In this process, chemical substances of concern with known toxicity, such as carcinogenicity, mutagenicity, reproductive toxicity, and respiratory toxicity, are preferentially excluded.



Analysis and safety evaluation of aerosol, a next-generation product

As various products are launched to meet diverse customer preferences, KT&G strictly analyzes the entire process from developing to using the product to provide accurate information. We put every effort into using approved chemical substances only to promote customer safety.

All raw materials in next-generation products are used after verification of safety in advance, and food-grade flavoring agents and pharmaceutical-grade cartridge moisturizers are used.

Furthermore, all additives contained in next-generation products comply with EU REACH (Regulation (EC) 1907/2006) regulations, and concerning substances such as EU SVHC (Substances of High Concern) and SIN List (Substitute Substances) are excluded. Cartridges and devices are used only for substances approved in accordance with the EU Regulation (EC) 1935/2004 on food contact materials, and all of the materials of the next-generation products go through the screening of aerosol transition substances, which is for the additional safety verification regarding detected substances.

We control the upper limit of all next-generation products by analyzing aerosol analysis on 58 ingredients that are reported by the World Health Organization (WHO) / Food and Drug Administration (FDA) / Health Canada (HC), and it meets the standard for reducing emissions by more than 90% on average compared to reference cigarettes. Moreover, it is launched once verified for its safety by an in vitro toxicity test (cytotoxicity/bacterial mutagenicity, etc.).

As a product with reduced potential risks, it complies with strict internal standards, market regulations, and advanced global systems and is expected to meet customer expectations. In 2018, we had the aerosol component contained in KT&G's heated tobacco products analyzed and evaluated for its safety by a qualified external agency of analysis and presented related research outcomes at overseas academic conferences.

\* International standard tobacco manufactured by the University of Kentucky Standard Tobacco Products Center for tobacco product research

Animal testing policy

KT&G refrains from research on animal experiments related to tobacco to protect animals. However, only in unavoidable cases such as meeting regulations, animal testing is conducted in accordance with the guideline of OECD by commissioning external non-clinical testing institutions with GLP (Good Laboratory Practice). When animal testing is unavoidable because there is no alternative animal test method, in accordance with the Animal Protection Act and the Act on Laboratory Animals, the experiment is conducted in a way that minimizes the number of animals and causes less pain to animals after approval by the Ethics Committee.



# NGP (NEXT GENERATION PRODUCTS)



## Strengthening dominance of the domestic market and advancing to overseas market

Despite being a relatively latecomer in the NGP market, KT&G has grown rapidly with a 33% market share in the domestic NGP market in 2020, after three years of the release leading the industry with differentiated strategies and innovation. In 2020, we signed a strategic partnership agreement with Philip Morris International, the world's No.1 cigarette and tobacco manufacturing company.

### Major activities and achievements

The NGP business is constantly achieving a positive outcome in the NGP market, with a device share exceeding 60%, thanks to the growth of our e-cigarette platform. Notably, we are leading the NGP market by building a diversified portfolio that reflects customer needs by releasing the 2nd generation of Lil SOLID, which has significantly improved customer convenience, the 2nd generation of lil HYBRID, a growing proprietary platform, and four dedicated sticks. Moreover, despite the influence of the COVID-19 outbreak, we could overcome the decline in offline sales by increasing the online sales of the devices, achieving diversification of communication channels tailored to the non-contact era. We upgraded the online website and our customer center and expanded our non-face-to-face delivery service. Through a strategic alliance with Philip Morris International, we launched lil SOLID and dedicated Stick Fiit in Russia, followed by Ukraine in August and September 2020. Even more, in October 2020, we launched lil HYBRID and dedicated Stick Mix in Fukuoka and Miyagi Prefecture, Japan, the world's largest customer of NGPs. In February 2021, we expanded our distribution to all regions of Japan, including major cities such as Tokyo and Osaka.



Next Generation Product

### Strategies and goals

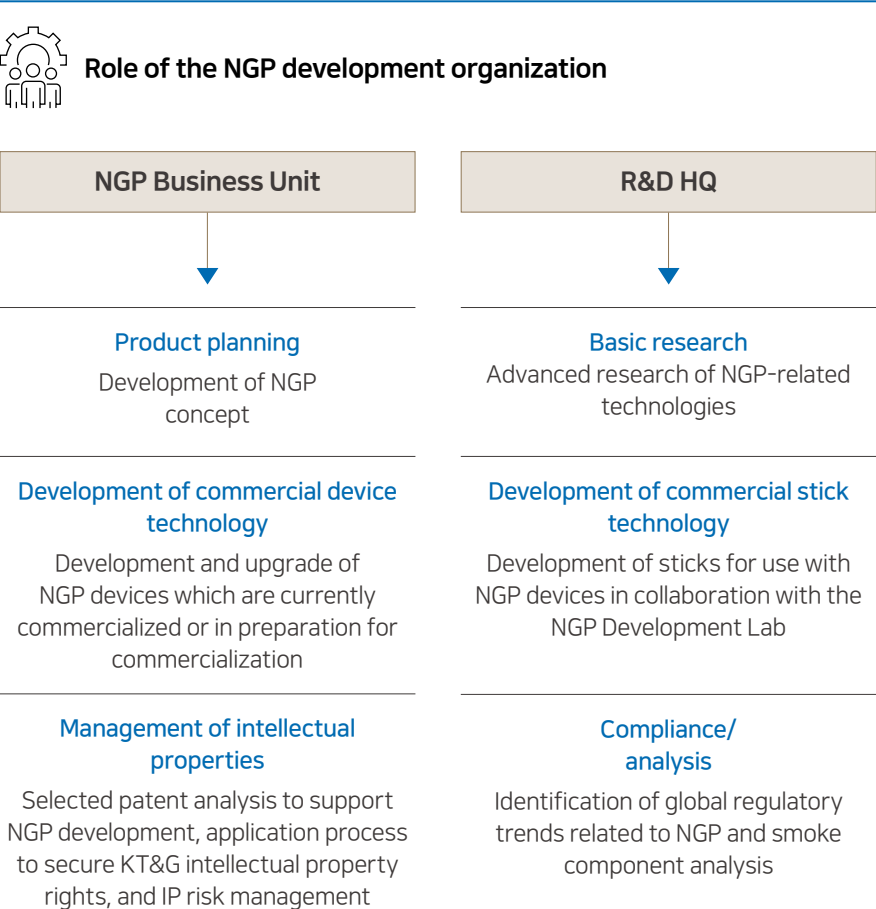
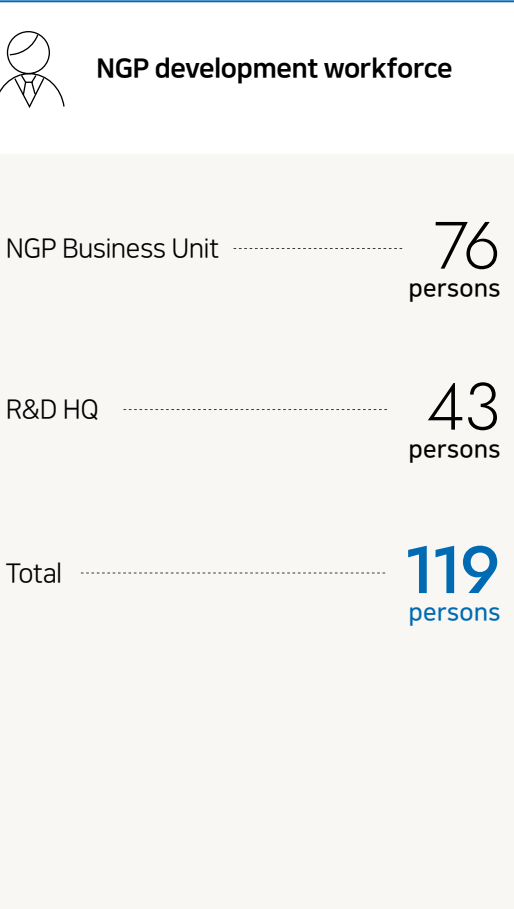
KT&G has a vision to become a global top tier by 2025 in the NGP market, which is the core of the future tobacco industry. To secure global competitiveness in the NGP business, we plan to work with Philip Morris International and advance into more countries, including Europe, while expanding our dedicated platform line. Thus, we intend to respond quickly to local product requirements and certifications with active research and development. Additionally, we aim to attract customers who quit smoking cigarettes due to various regulations and implement detailed action plans to preoccupy potential demand, such as strengthening online channel activities and operating efficient after-sales service.


	2018	2019	2020
Sales	KRW 176.3 billion	KRW 226.5 billion	KRW 279.2 billion
Unit sales of sticks	Around 1.20 billion	Around 2.46 billion	Around 2.85 billion
Unit sales of devices	Around 1.49 million	Around 1.05 million	Around 1.88 million
Stick SKU	9 kinds	14 kinds	17 kinds
Export countries	-	-	3 countries
Number of new patents (applied)	2 items (219 items)	23 items (380 items)	92 items (1,106 items)
Number of trademarks and designs (applied)	290 items (720 items)	614 items (1,815 items)	835 items (311 items)



## Building infrastructure for product innovation of NGP

In July 2016, KT&G established the Product Innovation Office under the Marketing Headquarters. It is when we started developing NGPs. In 2019, the Product Innovation Office was expanded and reorganized into the NGP Business Group, and the affiliated NGP Development Office was established. Furthermore, we expanded and reorganized the teams within the NGP development room to strengthen new NGP development functions in the future. Along with this, the R&D Headquarters expanded the stick development department for each platform and enhanced safety analysis and compliance functions. We are making every effort to strengthen organizational and human resources infrastructures and cooperate with the NGP business group and the R&D Headquarters to create synergistic effects for developing innovative products and establishing a leading position in the NGP market.





Main patented technology

KT&G has achieved continuous research performance based on the NGP infrastructure while securing its patent rights to take the leading position in the NGP market and advance into the global market. Notably, in 2020, as a result of actively applying for domestic and foreign patents to establish an independent platform and expand overseas markets, the number of patent applications increased about three times that of the previous year.

NGP-related patents for three years\*

Classification		2018			2019			2020			Total
		Do-mestic	Over-seas	Subto-tal	Do-mestic	Over-seas	Subto-tal	Do-mestic	Over-seas	Subto-tal	
Patent	Applied	178	41	219	188	192	380	349	757	1106	1789
	Registered	1	1	2	23	0	23	71	21	92	122
Trade-mark	Applied	158	207	365	62	1474	1536	56	192	248	2194
	Registered	10	80	90	134	123	257	50	694	744	1120
Design	Applied	122	233	355	37	242	279	19	44	63	778
	Registered	86	114	200	121	236	357	24	67	91	673

\* There is a difference from previously released data because the figures include the number of intellectual properties owned by the NGP Business Unit and R&D HQ.

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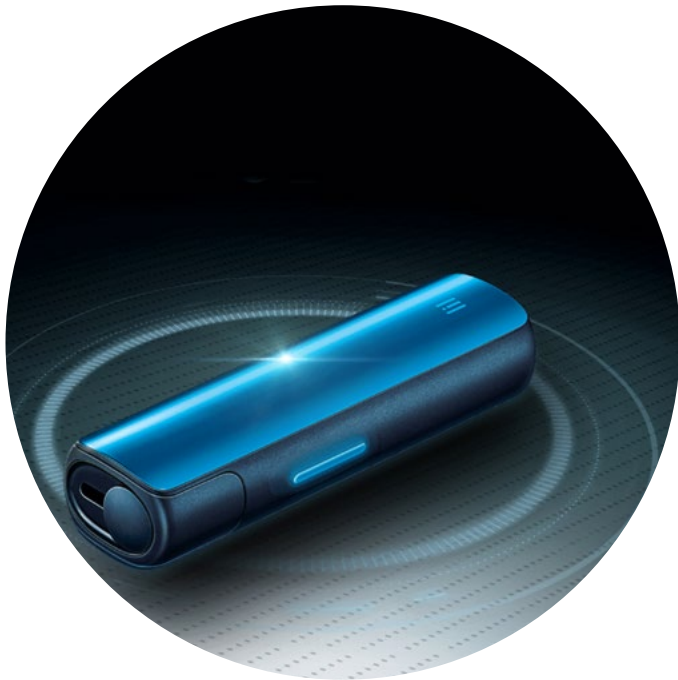
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NGP portfolio

KT&G launched a lil SOLID platform and a lil HYBRID platform in 2017 and 2018, respectively, and continues to expand the sticks for each platform considering various customer needs. KT&G launched the reel lead platform in 2017 and the reel HYBRID platform in 2018 and continues to expand the sticks for each platform considering various customer needs. After releasing a more upgraded lil SOLID 2.0 and lil HYBRID 2.0 devices in 2020, we have been leading the NGP market.

lil SOLID Platform



It's an NGP smoking platform that directly heats the medium in the stick. Heating the tobacco medium gives a similar feeling of satisfaction as that of a traditional cigarette, and it has drastically reduced the cigarette smell thanks to its non-burning method.

10 kinds of FIIT brand



lil HYBRID platform



It is KT&G's proprietary NGP platform that heats the stick and a liquid cartridge at the same time. It features rich fumes and a soft feeling of smoking. Its unique structure of inserting a stick resolved the inconvenience of cleaning.

9 kinds of Sticks



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Launching a new NGP, lil SOLID 2.0

lil SOLID is the first NGP platform that KT&G had launched. After the launch of the first generation in 2017, we launched lil SOLID Plus and Mini, and the second generation in October 2020. lil SOLID 2.0 adopted an ‘induction heating system’ that enables to heat the entire heater evenly while giving a uniform taste from start to finish. Also, its upgraded battery efficiency allows users to smoke up to 30 sticks when fully charged.

Performances

Major patents

Induction heating technology	Possible to generate homogeneous aerosol through induction heating using susceptor
Induction heating circuit control technology	Increasing energy efficiency by changing induction heating methods within the preheating section and temperature maintenance section
Preheat temperature control technology	Changing control methods within preheating section to ensure battery safety

Performances after launch

Unit sales (after launch)	Around 155 thousand units were sold from October 2020 to the first half of 2021
Market share	28.1% as of the first half of 2021

Major functions

Differentiated technology



Uniform taste with induction heating system



Easy cleaning with integrated structure of cap and stick pocket



Up to 30 cigarettes can be smoked on a single charge due to battery efficiency



Customizing the look to customer taste using the styler decor





# RESEARCH AND DEVELOPMENT



## Strengthening R&D and product development capabilities

Since the 1990s, KT&G has been applying for intellectual property rights, patents, and trademarks to protect the values embodied in technology and trademarks, which are our R&D outcomes. Accordingly, KT&G has grown into the second-largest intellectual property holder among the top 30 Korean food and beverage companies as of 2020. In addition, KT&G is growing into a global company with solid patent capabilities by carrying out intellectual property-based technology development tasks centered on the R&D Headquarters to respond to the future technology-oriented market.

### R&D organization

The R&D Headquarters is developing core technologies related to traditional and NGP cigarettes. For this purpose, we have systematically established the specialized areas for each work field. KT&G's R&D organization consists of three research institutes (Product Research Center, Future Technology Research Center, and Analysis Research Center) and R&D Planning Office. Meanwhile, with the growing emergence of the technological convergence between traditional tobacco technology and e-cigarette devices worldwide, we have been actively carrying out intellectual property affairs by recruiting employees responsible for patents and establishing a patent department. As of 2021, there are nine patent attorneys and six dedicated IP personnel in KT&G working on obtaining intellectual property rights stably.



R&D organization

Research institute	Research areas
Product Research Institute	<ul style="list-style-type: none"><li>• Developing traditional cigarettes and NGP products tailored to customers at home and abroad and improving existing products</li><li>• Developing less smell products (Smell Care Center)</li></ul>
Future Technology Research Institute	<ul style="list-style-type: none"><li>• Researching raw materials and flavor technology for traditional cigarettes and NGP products</li></ul>
Analysis Research Institute	<ul style="list-style-type: none"><li>• Researching component analysis and developing new analysis technologies</li><li>• Operating an internationally accredited testing institutes (KOLAS) and conducting international joint research</li></ul>
R&D Planning Office	<ul style="list-style-type: none"><li>• Establishing mid-to-long-term R&amp;D strategic goals and managing projects</li><li>• Managing and operating R&amp;D intellectual properties</li></ul>

R&D activities

KT&G is actively utilizing intellectual property rights for various technology-related tasks, such as developing and protecting the technology. Notably, the R&D Headquarters is integrating the tobacco technology, which will lead the future market with intellectual property rights by establishing a technology development strategy utilizing intellectual property (IP-R&D), avoiding patent risks throughout the entire technology development cycle, and securing intellectual property rights for the R&D outputs. Furthermore, KT&G is contributing to raising awareness of intellectual property rights through the application of the policies to encourage duty inventions, such as operating in-house rules for intellectual property, establishing an Intellectual Property Computing System (KIPI), providing patent education for researchers, and appropriate compensation for job inventions.

Major R&D Activities

Identifying tobacco technology trends by analyzing worldwide patent

The R&D Headquarters analyzes the latest published patents of tobacco companies around the world and publishes a 'patent analysis report' on a quarterly basis to quickly identify the latest technology items and tobacco-related trends and actively utilize them for R&D. This enabled KT&G to develop new technologies quickly and reduce trial and error in the initial development stage.

The system for activating duty invention and securing rights for core technology

The R&D Headquarters has focused on activating duty inventions, for example, raising awareness of intellectual property within the company and encouraging motivation of researchers by providing diverse services including patent MBO (Management by Objectives), 'Visiting Patent Consultation,' 'Consultation on Patent Application,' and 'In-house Invention Award,' to protect KT&G's core technology and preoccupy future technology development. KT&G successfully protected its various core technologies, including 'Scent Capsule Technology,' 'Smell Reduction Technology,' 'HEPA Filter Technology,' and 'NGP Technology' with patent rights to excel in global tobacco technology patents and product competition.



Major R&D activities

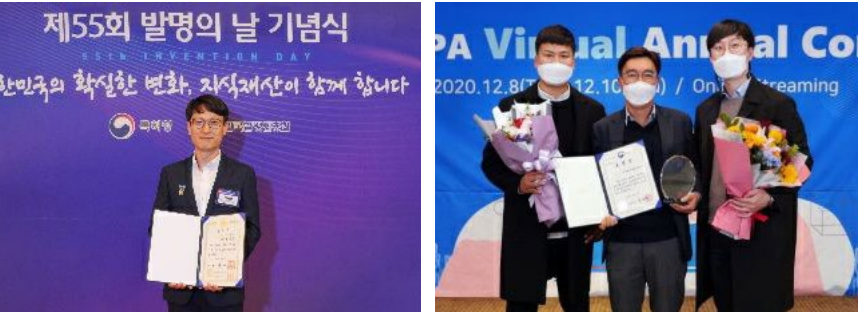
Classification	Content
Enhancing the development of traditional tobacco and NGP	<ul style="list-style-type: none"><li>• Analyzing domestic and foreign technology trends to present technology that materializes product brand concept</li><li>• Improving product competitiveness by manufacturing prototypes and verifying quality</li><li>• Maximizing performance by establishing a close cooperation system between internal organizations and external research institutes</li></ul>
Establishment of international standards	<ul style="list-style-type: none"><li>• Applying for establishment of regulatory analysis method and establishment of international standard as a board member of the CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco)</li></ul>
Joint research	<ul style="list-style-type: none"><li>• Conducting international joint research with the China National Tobacco Corporation-affiliated research institute and the Asian Tobacco Component Analysis Joint Research Group</li></ul>
Support for export	<ul style="list-style-type: none"><li>• Supporting export business by enhancing product reliability by being recognized as an internationally accredited testing institute</li></ul>

Major R&D tasks and supports

Tasks	Content
Rightsization for Technology Protection	<ul style="list-style-type: none"><li>• Applying for and registering patents</li><li>• Activating job invention<ul style="list-style-type: none"><li>- Visiting patent consulting</li><li>- Patent consulting</li><li>- Award for invention</li></ul></li></ul>
R&D strategy connected patent analysis	<ul style="list-style-type: none"><li>• Publishing patent analysis report</li><li>• Building and running patent portfolio</li><li>• Making a I_-based technology roadmap</li></ul>
Solving patent issue and seeking research materials	<ul style="list-style-type: none"><li>• Solving patent issue</li><li>• Identifying research items and seeking patent materials to solve problems</li></ul>

Major R&D outputs

In 2020, we carried out 59 major tasks, developing a product that ed the domestic market trend, global products customized for local customers, domestic and foreign next-generation products, and researching future new products/core technologies. We strengthened our dominance in the domestic market by developing and launching products adopting the unit technology for reducing odors and diversifying our global product portfolio. Our focus on developing products tailored to the local market based on our know-how allowed us to improve product competitiveness. Furthermore, we identified and discovered customer needs for next-generation products and continued to develop new technologies to secure quality competitiveness for commercialized products and the basis for the next-generation platform.

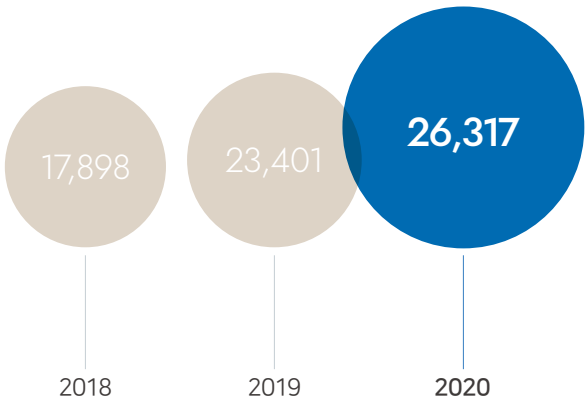


With the recognition for our contribution to national industrial development centered on our active intellectual property-oriented management, a senior researcher at the KT&G R&D Center was awarded the Prime Minister Award on the first half of 2020, while KT&G was awarded the Commissioner Award from the Korean Intellectual Property Office at the “Intellectual Property Management Enterprise of the Year” in the latter half. This served as an opportunity to publicize the excellence of KT&G's patient-oriented technology management nationally.

R&D investment amount

We are gradually increasing the amount of investment in R&D related to future business for strengthening intellectual property rights, and researching core technology for next-generation products, showing an increase of the investment amount in R&D by 12.46% (two billion, nine hundred fifteen million won) in 2020 compared to 2019.

(Unit: KRW in millions)



Intellectual properties ownership in 2020

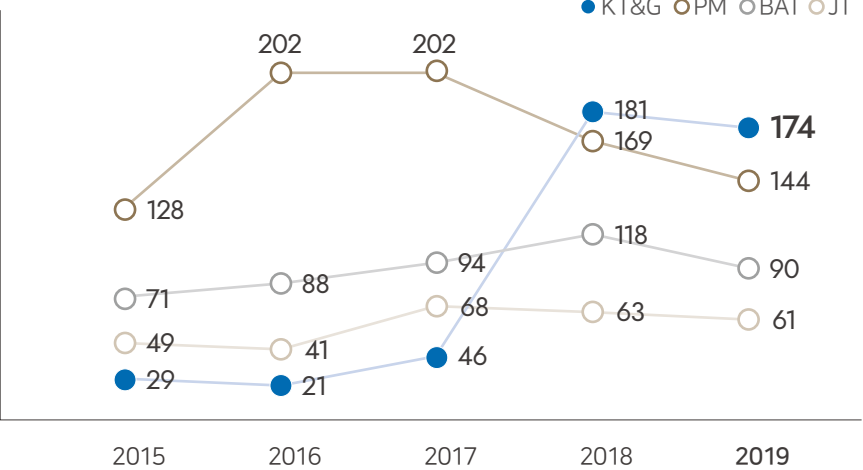


Patent application

With accelerated technology development on NGP e-cigarettes and intensified patent disputes among global tobacco companies, KT&G has introduced a company-wide policy of encouraging active inventions and patent applications and hired some patent experts. Consequently, the number of domestic patent applications filed by KT&G dramatically increased from 29 cases in 2015, 21 cases in 2016, and 46 cases in 2017 to 181 cases in 2018, 174 cases in 2019, and 385 cases in 2020. This is significant in that KT&G, which had the lowest number of domestic patent applications from the 1990s to 2017 compared to other global tobacco companies, dramatically ranked first in the number of domestic patent applications among tobacco companies in 2018, and has emerged as a tobacco company with strong intellectual property capabilities.

Patent application of KT&G and peers in Korea

(Unit: items)





# CUSTOMER SATISFACTION MANAGEMENT



## Customer communication

### Communication channel

KT&G operates various communication channels to enhance communication and customer services, including the lil website for introducing and promoting lil brands, lil flagship shop and lil store (online mall) for product information and purchases, and call center A/S center for customer inquiries and complaints. We also opened a new Kakao Channel (September 2019) and an online customer service center (October 2020) with efforts to meet various needs and enhance customer satisfaction.

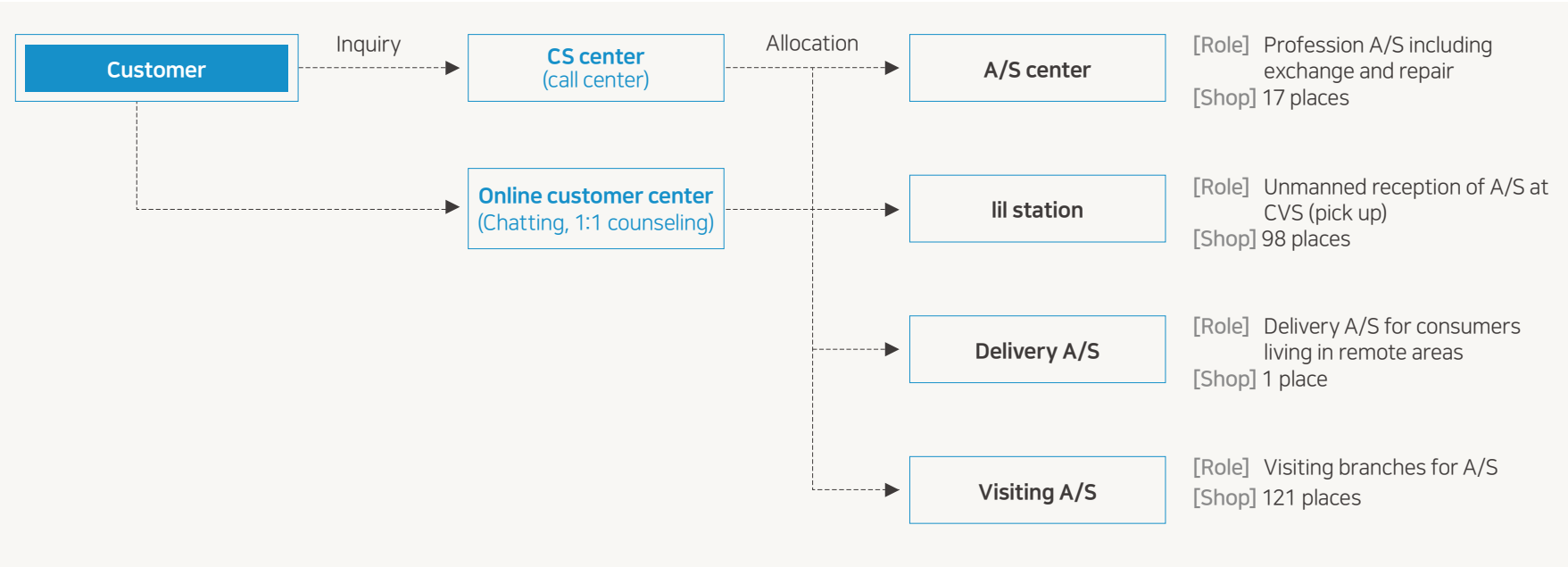


### Communication channel

Classification		Role	Place	Remark
CS Center (Call Center)		General consultation, information on claim reception and processing channels	1	
Online	Homepage	Introduction to lil brand, products, and channels	1	
	Online customer center	Self-check on lil brand, chat conversation, one-on-one inquiry, FAQ	1	Newly launched
	Kakao channel	Introduction to brands and information such as promotion	1	Newly launched
	lil store	Online sale of lil brand	1	
Offline	lil minimulium	Product consultation and purchasing	8	
	A/S center	Product repair and exchange, check on use history, consultation on quality	17	
	lil station	Product consulting and reception of A/S	98	
	Visiting A/S	Product exchange and consultation on quality	121	
Total			249	

VOC management process

Our CS center and online customer service center (1:1 inquiry, chat, etc.) primarily deal with general customer inquiries. For repairs of lil products, we handle customer complaints at the A/S Channels such as A/S Center, lil Station, and Visiting A/S. Customers may also receive repair services at A/S Center and lil Station by visiting the store in person without going through the CS Center.

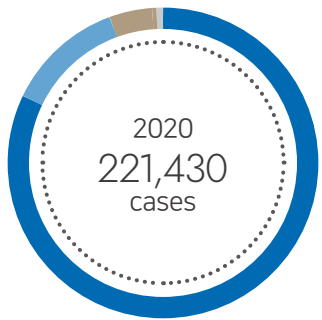


VOC registration status

KT&G receives and manages Voice of Customers (VOC) by type through various channels. We reflect our customer's opinions in business activities to enhance product competitiveness, and follow-up measures are taken to strengthen customer satisfaction. In addition, we are making every effort to provide better services, such as introducing a new search engine (FAQ) and chats.

VOC reception channel

(Unit: %)



■ Phone	82.9
■ ARS	11.9
■ 1:1 counseling	4.6
■ Chatting counseling	0.5

Enhancing customer satisfaction

Award related to customer satisfaction

KT&G's Marketing Division, NGP division, R & R&D Division, and Manufacturing Division strive to enhance customer satisfaction through collaboration to improve product quality. As a result, KT&G was awarded the grand prize in the cigarette-type e-cigarette category in the 2021 Korea Brand Hall of Fame hosted by the Institute for Industrial Policy Studies (IPS) and Brand of the Year hosted by the Korea Consumer Council for 3 and 4 consecutive years, respectively.

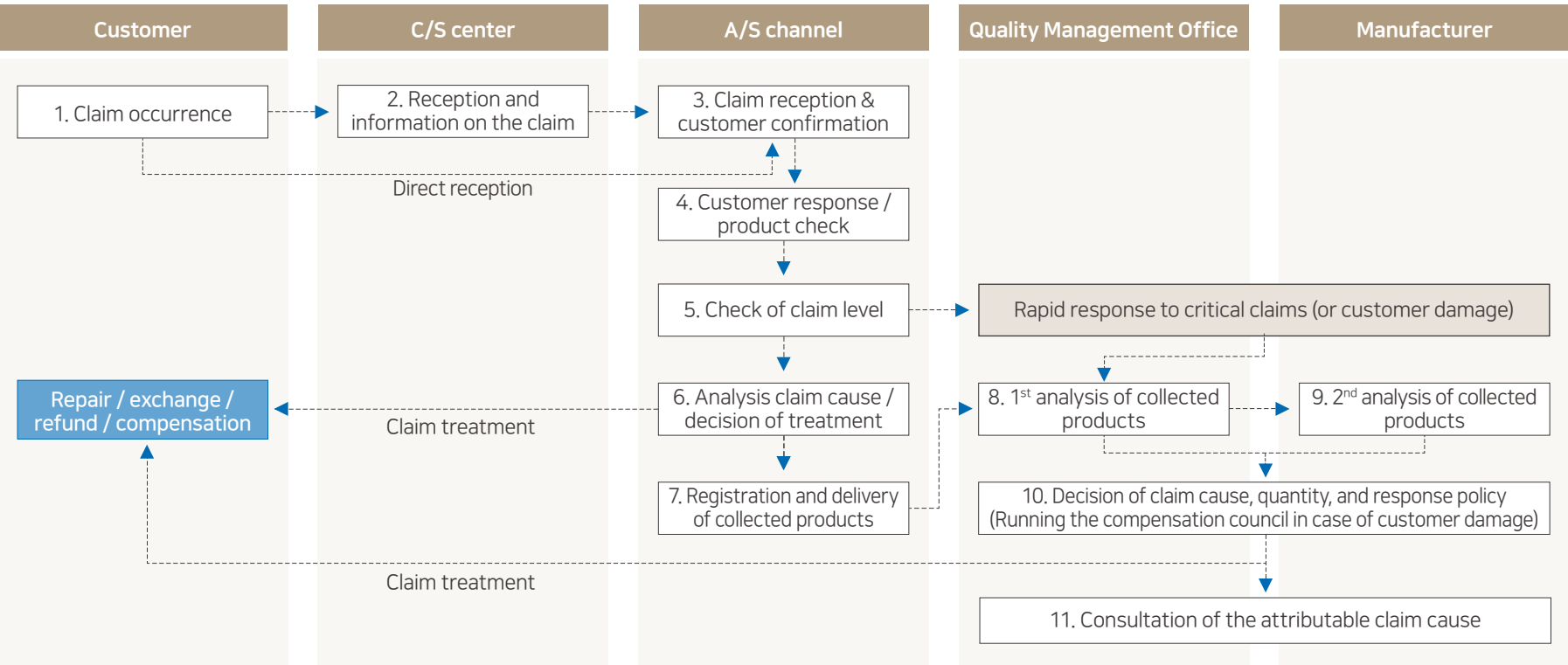
lil brand's awards in 2020 and 2021

Date	Award	Institution	Remark
Jan. 22, 2020	2020 Korea Brand Hall of Fame	IPS (Industrial Policy Studies)	2 years in a row
Oct. 12, 2020	2020 Brand Award of the Year	Customers Council	3 years in a row
Jan. 28, 2021	2021 Korea Brand Hall of Fame	IPS (Industrial Policy Studies)	3 years in a row
Aug. 19, 2021	2021 Brand Award of the Year	Customers Council	4 years in a row

Compensation for damage

KT&G stipulates consumer damage compensation procedures for products and services. We classify the claims and complaints received considering the level of urgency and importance and determine the dealing method after discussion with the relevant department.

Claim treatment flow chart



Enhancing the capabilities to respond to customer inquiries and conducting customer satisfaction surveys

In response to the increase in customer inquiries, KT&G increased the number of counselors and introduced ARS to strengthen our capabilities to respond to our customers. Accordingly, the response rate to incoming calls increased from 70% in 2019 to 91.1% in 2020, and we tried to listen more carefully to our customers' valuable opinions. Furthermore, we have been conducting satisfaction surveys on 10,000 customers every quarter, such as the degree of satisfaction on how kind the counselor was and solving to improve the quality of customer services, since July 2020. On average, there are more than 64% of positive responses, and KT&G endeavors to provide a better service experience to customers while reflecting on drawbacks.

Consumer damage compensation council

In the event of a major claim or damage from a customer due to a product defect or fault, a damage compensation council consisting of related departments such as the NGP Business Team, Quality Control Office, Public Relations Office, Finance Office, and Ministry of Justice is formed to prepare a damage compensation plan considering the degree of damage and process the claims quickly.

Trade-in service

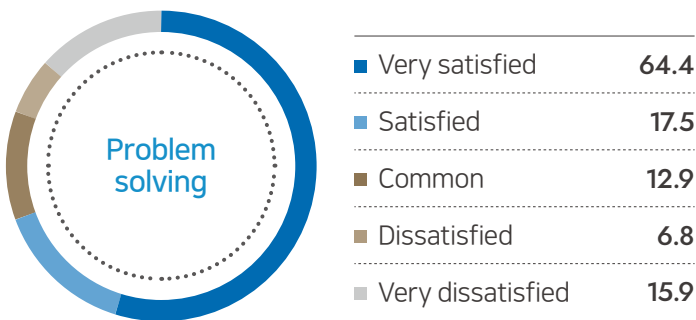
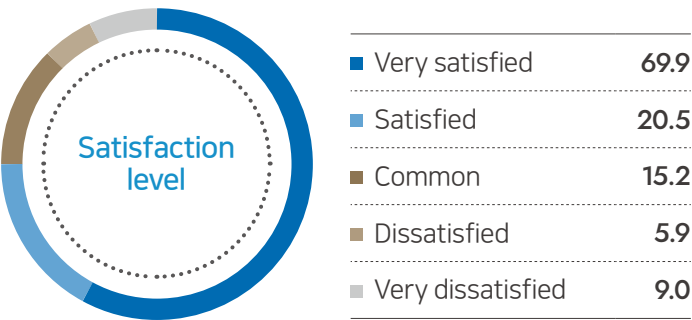
As part of the customer satisfaction program, since 2018, we have operated a trade-in program where customers can purchase new products at a discounted price when they return their old lil products. As of December 2020, approximately 80,000 customers have benefited from this. Also, we provide cleaning services to customers who visit lil Flag Shops and A/S Centers.

Strengthening the Infrastructure of Customer Satisfaction Management

Establishing an online customer center

KT&G has newly opened an online customer center and Kakao Channel to manage the history of customers' diverse opinions and enhance customer satisfaction. The online customer center consists of lil self-diagnosis and FAQ where customers can find solutions to simple issues on their own, chats for the hearing impaired and those who do not prefer phone calls, and a 1:1 inquiry board. In addition, we are continuously building an infrastructure to enhance customer satisfaction, such as establishing the Kakao Channel with ease of use and access.

Survey on counseling satisfaction  
(Unit: %)





## Privacy and protection of personal information

### Privacy policy

KT&G strictly complies with personal information protection laws such as the ‘Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.’ and the ‘Personal Information Protection Act’ and acquired certification of Personal Information & Information Security Management System (ISMS-P). We have also established the ‘Guidelines to Internal Management of Personal Information’ and disclosed to employees via KT&G’s Legal Information System (<https://klis.ktng.com/>). Furthermore, the information on the collection, retention, use, and destruction of personal information acquired by KT&G is disclosed via the Privacy Policy (<https://www.ktng.com/privacyNew>) to enable the subject of the information to easily view the status of personal information management at any time.



ISO27001 certification

### Information protection programs and policies

- CISO: Young-jo Park, head of Information Protection Office
- Training
  - Security vulnerability check (annually) and security level review (frequently)
  - Leakage response training (annually)
  - Simulation training on employee mail hacking (quarterly)
- Education
  - Education on personal information protection for all employees (annually)
  - Education on secure coding for commissioned developers (maintenance) (annually)
  - Special education on personal information protection for commissioned agencies (frequently)
  - Education on information protection for new (experienced) employees (frequently)
- Monitoring
  - Operation of a 24/365 security control system to detect and respond to security threats in real time
  - Check of compliance with information protection (annually)
- Campaign
  - Sharing the information protection newsletter and self-check on information protection (quarterly)
- Information protection and security policy of subsidiaries
  - Preparing security standards for subsidiaries (Mar. 2021)
  - Inspection on the compliance with laws of subsidiaries (annually)

### Strengthening personal information protection capabilities

KT&G views cybercrime and personal information leakage as information protection risks. Accordingly, we have established information security regulations and operating guidelines and an incident response manual to stipulate the reporting system for each type of incident and response procedure. Moreover, we conduct inspections on compliance with personal information annually and various education and training programs to strengthen our employees' capabilities to protect customers' personal information.

In addition, we have built an information protection system and operate a security control center at all times to prevent personal information-related breaches such as external intrusions and internal leaks. Thanks to our efforts to protect personal information, there has not been a single case related to leakage of customer information over the past ten years.

### Operation of the information protection security control system

#### 01

Detecting and blocking security threats by running a 24/365 security control system in real time

#### 02

Operating the SOC (security Operation Center) consisting of security experts

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- Attraction of Talents and  
Competence Enhancement
- Human Rights Management
- Safety and Health in Workplace

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ENHANCING HR  
MANAGEMENT AND  
HUMAN RIGHTS  
PROTECTION

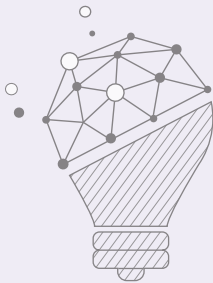
Pillar 3.



“KT&G strives not only to hire and cultivate future talents but also to strengthens the competitiveness of employees based on systematic policies including fair evaluation and compensation, diverse training programs, gender equality, and human rights protection.”

Pillar Highlights: **Equal Salary Policy**

KT&G provides employees with fair and equal opportunities according to their abilities and competencies and implements a wage policy without discrimination for employees with the same qualifications and positions. As a result of this policy, we obtained the Equal Salary certification for the first time among listed companies in Korea from the Equal Salary Foundation in 2021, proving that our wage system is operating based on the principle of equitable treatment in an integrated manner.



- Attraction of Talents and  
Competence Enhancement
- Human Rights Management
- Safety and Health in  
Workplace



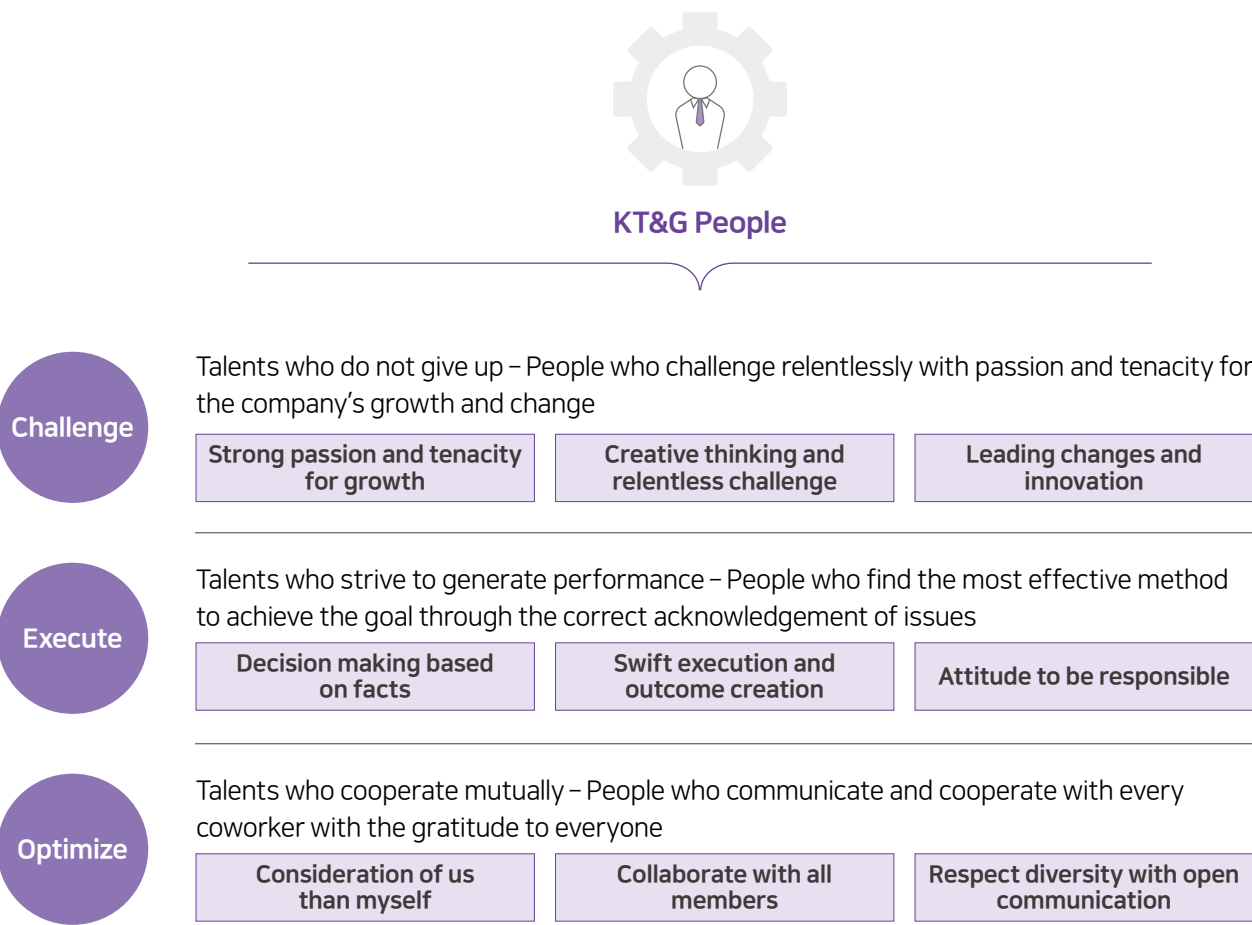
# ATTRACTION OF TALENTS AND COMPETENCE ENHANCEMENT



## Securing and cultivating talents

### Philosophy of human resources

KT&G operates a human resource development and management system that focuses on performance and duties. Notably, job performance is evaluated based on the individual CDP (Career Development Program) plans for employees, where the employees are encouraged to strengthen their values and increase job satisfaction. Additionally, we avoid discrimination of gender, academic background, region, disability, etc., by adopting blind recruitment and hiring talent that focuses on ability. We are also fulfilling our social responsibility for creating jobs for youth and socially vulnerable groups by practicing job sharing. Examples of activities include adopting the peak wage system, activating personalized and annual leaves, and recruiting high school graduates.





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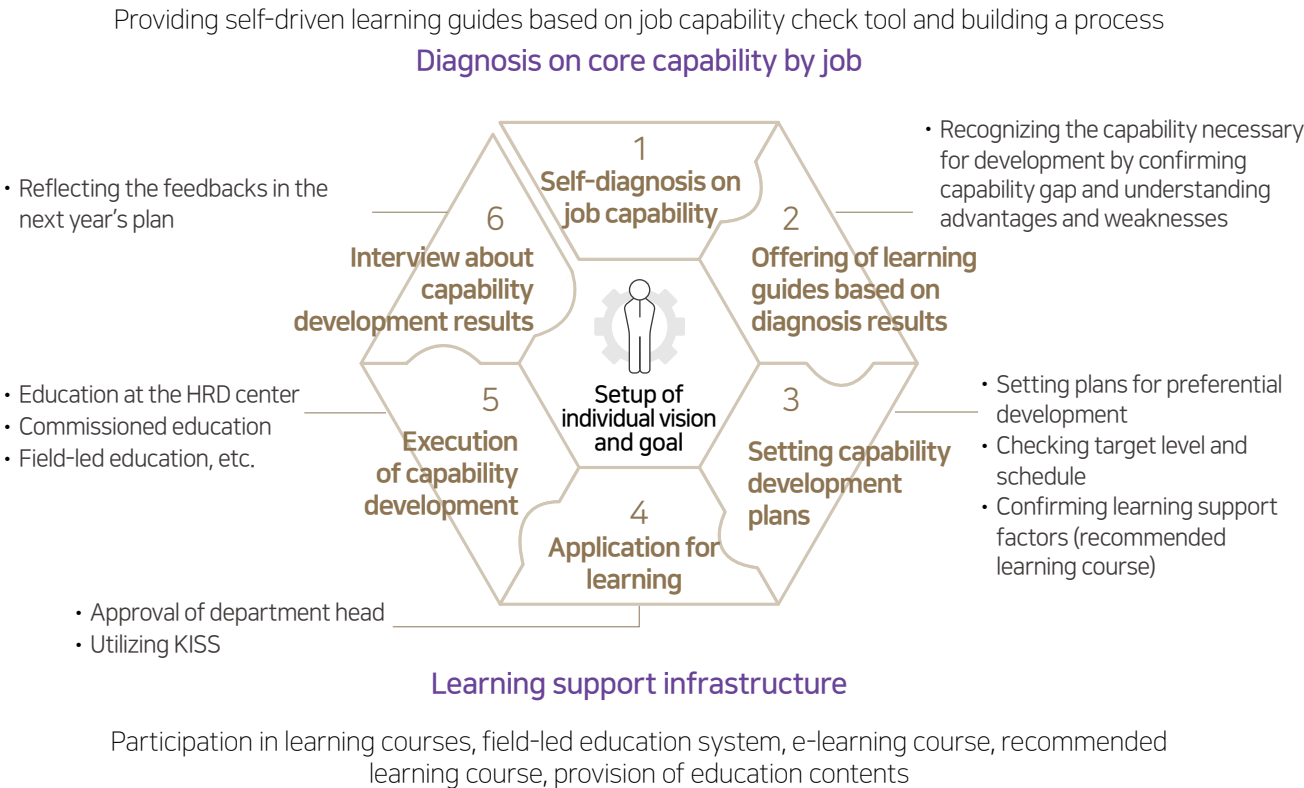
Training employees

Competency development of employees is an essential element for strengthening corporate competitiveness and securing sustainability in a rapidly changing business environment. KT&G is strengthening its education system with the intention to nurture leaders who lead organizational growth and job experts who lead changes/innovations to achieve the vision of a 'global company of excellence.' With regard to that, we develop/provide systematic training programs that enable employees to build their own roadmaps for developing competency to enable customized learning. KT&G employees grow into global leaders who secure job expertise in each field thanks to a variety of training programs and create results while communicating/cooperating with members of the organization.

Training system

KT&G training is a systematic program divided into leadership training - to understand leader roles and competency enhancement, job training - to improve on-the-job competency, core value training - to understand organizational culture, and business management training - to strengthen the planning capabilities of working-level employees. To facilitate the learning effect of each course, we utilize selective or mixed methods such as in-house group training, external consignment training, e-learning, and real-time video training, depending on the purpose and characteristics of the training. Furthermore, we operate a self-directed competency development process that enables self-learning by providing individual self-directed learning guides and recommended learning paths to develop customized job competencies.

Self-driven competence development process



Leadership training

We have established a leadership training system that encompasses all working levels from newcomers to executives and supports our employees in recognizing each level's roles and ensuring smooth work performance. We share the organization's vision and management strategy, motivating them to understand how newcomers adapt to the working environment and the roles and tasks of experienced employees that change when promoted to the upper position. We continue to improve the two-way leadership model that enables interaction between leaders and members and a business-oriented leadership system, ensuring flexible leadership where leaders can actively respond to changes in the environment.

Job training

We have systematized the process of establishing and implementing a competency development plan based on the examination results of the individual's job competency and provide in-depth training programs for each field to nurture job experts. Moreover, we developed to provide micro-learning content for each area and established a regular learning system that allows employees to selectively take the necessary learning content.

Core value training

We are conducting position-specific training to embed the KT&G Way, the corporate value system, and core values. We encourage newcomers to understand the concept, recognize the importance of corporate value, and motivate executives and promoters to re-recognize it and put it into practice.

Management training

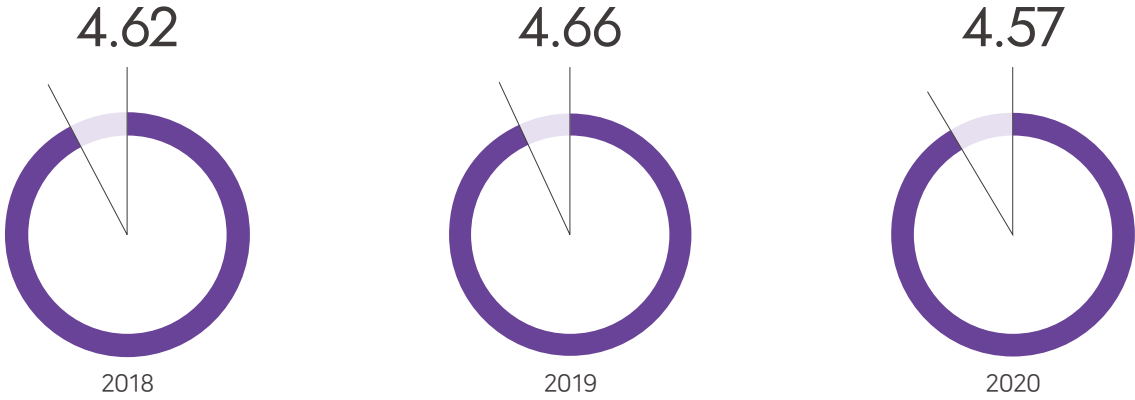
In order to strengthen our strategic planning abilities, we provide different curriculums for each level based on MBA theory learning. In addition, we run practical courses to strengthen the planning capabilities of working-level employees. In 2021, we will convert all offline training courses to real-time video training, providing more learning opportunities for trainees to improve problem-solving, decision-making, and strategic planning skills.

## Satisfaction of training

We conduct employee satisfaction surveys on training programs to continuously improve them every year.

### Survey on education satisfaction

(Out of 5 points)



## Changes in the form of training due to the COVID-19 situation

Due to the prolonged COVID-19 situation, KT&G has built a non-face-to-face HRD training environment utilizing digital technology to enable employees to continue strengthening their capabilities in any environment. We continue to provide major training through a so-called 'real-time video' infrastructure that enables smooth learning for multiple people and some platforms such as Zoom, just as how it ran before the COVID-19 outbreak. In addition, we have remodeled KISS (in-house e-learning site) in 2021, aimed at providing employees opportunities to take necessary training suitable for individual level and needs regardless of time and space.

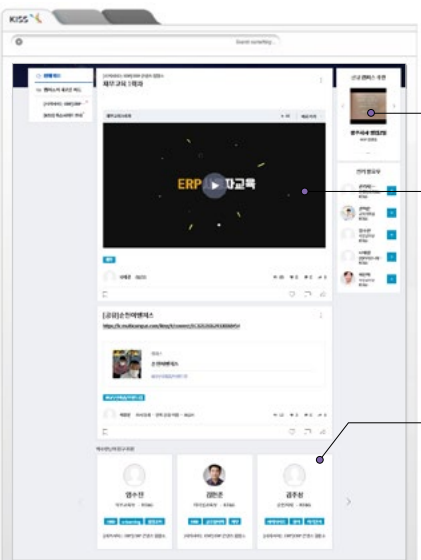
## Support to strengthen voluntary capacity

KT&G has created an online learning space for employees with a variety of programs, allowing them to strengthen their capabilities voluntarily. About 1,100 courses, including E-learning, reading communication, and telephone English, are available, and employees may freely apply for up to two courses per month. We also hold various cultural programs such as book concerts, exhibitions, and participatory art once a quarter to expand opportunities to enjoy a cultural life in the workplace.

### Introduction to major functions of NEW KISS

#### Feed

- You can see new news and various contents, and recommend learners and campuses that match your keywords of interest.
- After you save the feed you want to see again, you can check it in Me) Saved Feeds tab.
- You can easily connect with your colleagues by leaving comments in your feed.



New campus

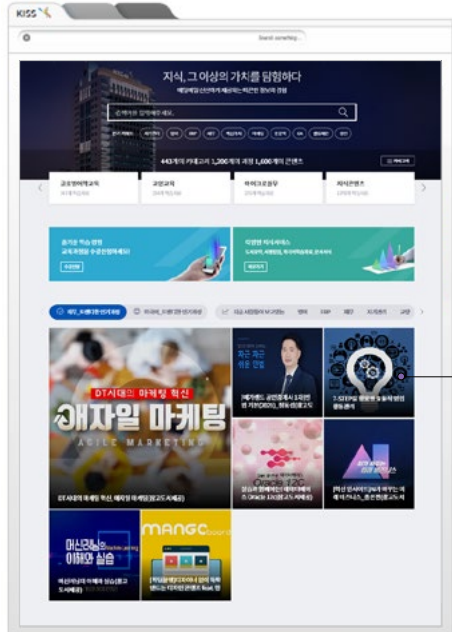
General feed

Friend recommendation

Friends matching your keywords are recommended and you can easily communicate with your colleagues.

#### Discover

- You can find regular e-learning applications, regular one-point lessons, knowledge service recommendations, real-time popular content, and customized content for your keywords of interest.



You can apply for e-learning courses and receive knowledge content services.

Real-time popular content

#### Connect

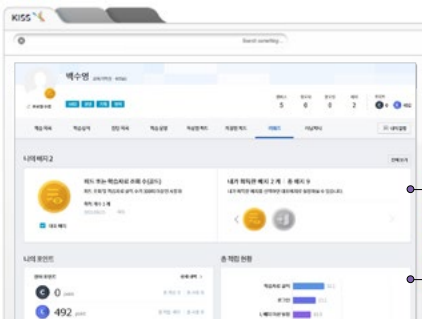
- You can join the campuses you are interested in and share your experiences and knowledge.



You can check the campuses to which you are affiliated.

#### ME

- You can see my learning history and learning journey at a glance.
- Badges and Points obtained through various activities give me reward and pleasure.



Checking my learning activities, learning history, and performance

Reward

# HUMAN RIGHTS MANAGEMENT



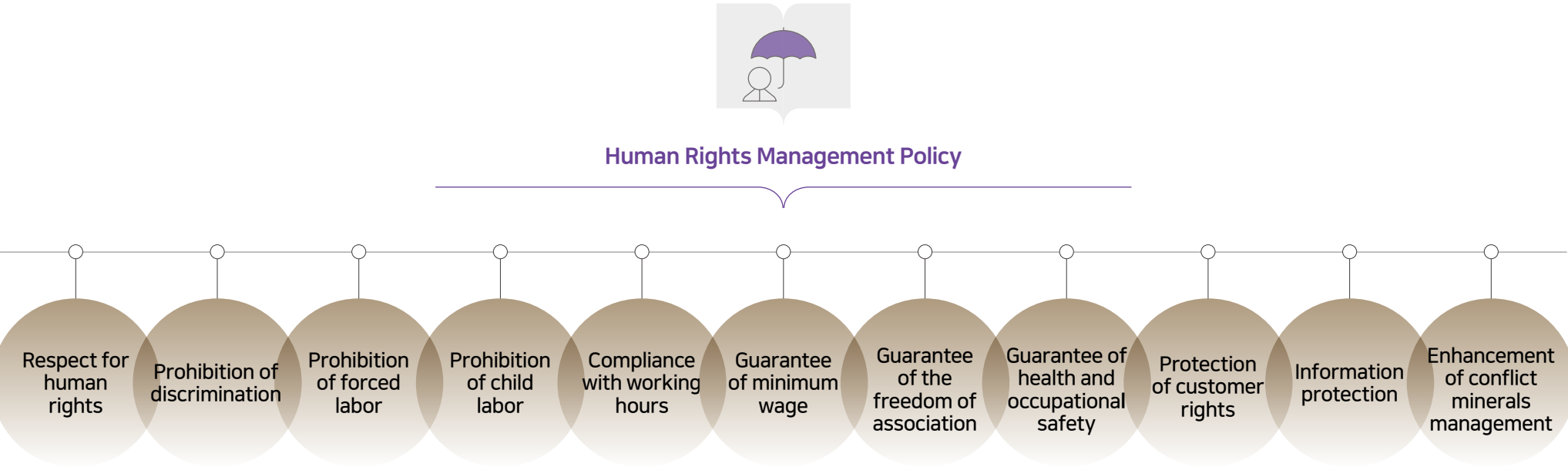
## Respecting employee’s human rights

KT&G intends to prevent risks of human rights violations that may occur in all business activities and actively protect human rights. To this end, we will set up human rights management policies, conform to international standards and principles related to human rights and labor, and enhance internal and external communication and human rights management processes, including relief procedures.

### Establishing KT&G Human Rights Management Policy

[KT&G human rights management policy](#)

KT&G respects and values the Universal Declaration of Human Rights announced by the United Nations, the principles for implementing business and human rights, the ten principles of the United Nations Global Compact, and various international human rights initiatives adopted and promulgated by international organizations on basic human rights such as the International Labour Organization. Considering the above, we plan to enact a human rights management policy to respect and protect the human rights of our employees and stakeholders and members of our business partners, including subsidiaries and subcontractors. Suppose the matters defined in the human rights management policy conflict with national laws and regulations. In that case, we will apply stricter principles and standards to ensure that the human rights of our stakeholders, employees, and partners are protected as possible.





Conducting a Survey on Human Rights Management

KT&G aims to establish a human rights management system to prevent any risks relevant to human rights based on the analysis and evaluation of the impact on the human rights of employees and stakeholders in advance. Accordingly, we conducted a survey on our employees in the headquarters to identify the actual status of human rights management within and outside the company. Based on the result of this survey, we were able to hear the voices and opinions of our executives and employees on their understanding of overall human rights management, identifying actual or potential human rights risks, and measures to promote human rights.

Understanding Level of Human Rights Management

About 92% of employees are aware that it is vital to protect human rights in business operations. About 50% stated that we show positive efforts to promote employees' human rights, while 17% said relatively inadequate. Additionally, it was found that many of the executives and employees are not aware of the company's procedures of monitoring human rights risk or providing relief for human rights violations. We plan to actively advance our system of protecting and promoting human rights and improving mental access to channels and processes to report human rights issues.

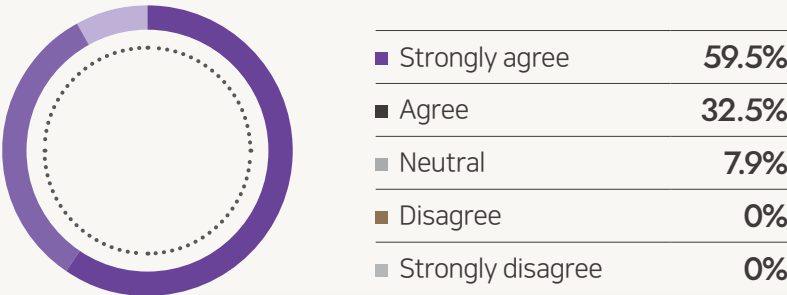
Potential Human Rights Risks

It was found that human rights are most likely to be violated in the course of business operation or implementing employee's duties to express their opinions freely, the privacy rights, and the right to fair working conditions. Accordingly, KT&G plans to internally monitor and review whether there are any blind spots not protected by the existing system or areas to be supplemented or strengthened.

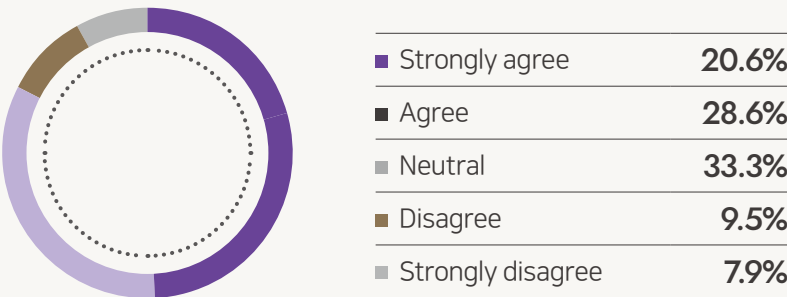
Top 5 human rights risks



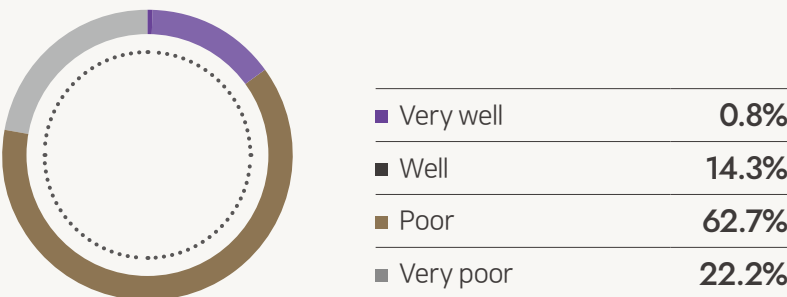
#. Do you believe that the compliance with human rights is an important factor in business operations?



#. Do you think that our company is working to promote the human rights of employees?



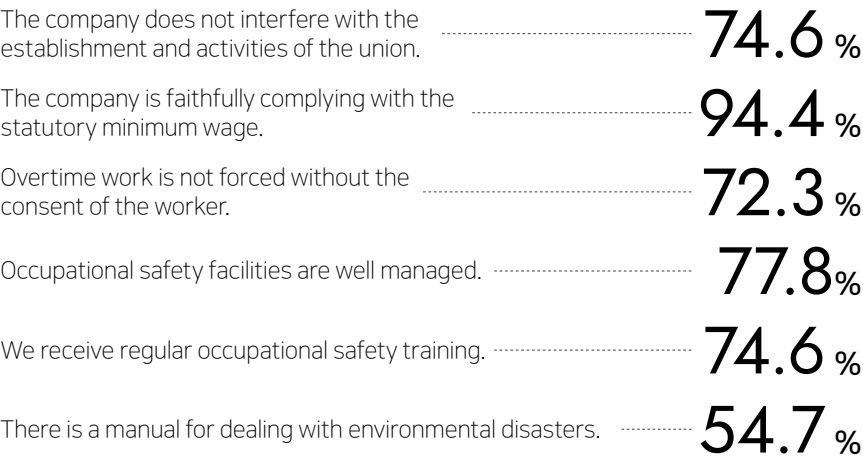
#. Are you familiar with the company's remedies for human rights violations?



Working Environment of the Workplace

On the contrary, it was identified that more than half of the employees positively perceive the systems and devices prepared to protect employees' human rights in the working environment. We will not interfere with establishing a union and force overtime work without the consent of workers but continue to take the lead in protecting the human rights of our employees compliant with basic human rights principles, for example, by managing facilities related to industrial safety and conducting training.

Percentage of positive responses by item



Vulnerable Groups to Human Rights Risks

The internal stakeholder groups relatively vulnerable to human rights risks were found to be the disabled (61.9%), women (52.4%), and fixed-term workers (48.4%) in order. We will actively review measures to protect the human rights of stakeholders who are likely to be exposed to human rights risks in the future and expand the scope of the investigation and systematically prepare procedures to hear the voices of more employees and stakeholders.

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Future Plans

KT&G aims to advance the risk management system for Implementing human rights management by developing a human rights impact assessment checklist referring to domestic and international human rights-related standards and guidelines. In the mid-to-long term, our plan is to perform a human rights impact assessment for all KT&G business sites by expanding the scope of management to include overseas business sites and stakeholders in addition to domestic business sites. We will analyze the evaluation results for each business site, identify improvement tasks, monitor the progress of improvement tasks, and prepare procedures for disclosing the progress of the project to the public. In addition to that, we will utilize internal and external communication channels to periodically collect opinions on human rights management and encourage more active participation from stakeholders to reflect them improving human rights management.

Reporting human rights violations and relief procedures

To prevent human rights violations and unethical behaviors in business activities, KT&G adopts a system to report unethical behaviors in which various stakeholders can participate. Suppose you fail to comply with the human rights management policy or witness or engage in violation. In that case, our channel enables you to report unethical behavior while the reporter's identity is protected under the 'Guidelines for Reporting Unethical Behavior.' Reports are handed to the dedicated department, which executes legitimate relief procedures after reviewing with the disciplinary committee, etc., depending on the case.

Unethical behavior reporting channel 

In-house human rights training

KT&G provides human rights training for all employees every year to foster a culture of respect for human rights. We strive to raise awareness of respect for human rights among employees by training on preventing workplace harassment and sexual harassment and improving the awareness of the disabled.

Human rights impact	Management system and prevention programs
Guarantee freedom of association and the right to collective bargaining	<ul style="list-style-type: none"><li>• Annual collective bargaining</li><li>• Quarterly labor-management council</li><li>• Announcement of collective agreement results through in-house intranet</li></ul>
Prohibit discrimination in employment and work	<ul style="list-style-type: none"><li>• Diversification of recruitment methods and channels, and pre-monitoring of discriminatory factors that may occur in the recruitment process</li><li>• Individual interview after evaluation and operation of objection system</li></ul>
Improve working conditions	<ul style="list-style-type: none"><li>• Network blocking and PC-off system</li><li>• Operation of job-sharing model</li><li>• 1:3:5 campaign</li></ul>
Human rights violation prevention activities (all employees)	<ul style="list-style-type: none"><li>• Establishment of workplace harassment prevention guidelines and employee pledge</li><li>• Training about workplace bullying prevention</li><li>• Operation of sexual harassment counselors and sexual harassment prevention training</li><li>• Education to improve awareness of the disabled</li></ul>

Workplace Harassment Prevention Act

Under the ‘Labor Standards Act,’ revised and enforced in 2019, it stipulates that education should be conducted annually to prevent other workers from causing physical and mental pain or worsening the working environment beyond the appropriate scope of their work. Hence, KT&G has been providing online training for all employees to prevent bullying in the workplace since 2019, establish the ‘guidelines for preventing and handling sexual harassment and bullying in the workplace’ and clarify the processing procedures at the same time. We also strive to promote awareness by collecting vows from executives and employees. Since 2020, we have regularly conducted employee surveys to regularly listen to the voices of our employees about harassment at the workplace and continue to carry out relevant preventive activities, such as further activating internal campaigns.

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Diversity and inclusion

KT&G believes that we can grow into one of the true global companies when we value a culture that respects diversity and inclusion as the foundation. To this end, we are creating a culture where people with diverse backgrounds and thinking methods can use their abilities to the maximum. In particular, according to the 'KT&G Ethics Charter,' Chapter 6 of 'Basic Ethics for Employees of the Company,' it explicitly emphasizes diversity, equity, and inclusion, including respect for fundamental rights, fair opportunities, and no discrimination (on any grounds such as gender, race, nationality, religion, etc.). In accordance with these principles, our programs and systems enable women, youth, senior citizens, and overseas employees to work smoothly within the company and improve their capabilities.

In-house Program of Promoting Diversity

Equal opportunity and evaluation between the genders

KT&G was selected as a Company with Excellent Gender Equality Culture by the Ministry of Employment and Labor in 2017 and has been actively making efforts to eliminate gender discrimination throughout the entire process of recruitment, hiring, evaluation, promotion, wage system, education, placement training, and retirement to ensure equality between the genders.

Recruitment	<ul style="list-style-type: none"><li>• Blind recruitment</li><li>• Reinforcing PR activities to promote the application of female employees</li><li>• Preparing institutional arrangements to eradicate prejudice against female workers<ul style="list-style-type: none"><li>- Increasing the proportion of female interviewers during interview screening</li><li>- Blind recruitment principle and evaluator pledge required</li><li>- Expanding AI interview and improving the result utilization</li></ul></li><li>• Operating a special management program for female workers after joining the company (new employee follow-up course)</li></ul>
Evaluation and promotion	<ul style="list-style-type: none"><li>• Conducting special promotion of professional career female employees in 2020</li><li>• Building training infrastructure for enhancing the capabilities of long-term leave workers and supporting work upon return</li></ul>
Compensation (wage system)	<ul style="list-style-type: none"><li>• Obtained the Equal Salary certification in 2021</li></ul>
Training and education	<ul style="list-style-type: none"><li>• Operating the follow-up course for new employees<ul style="list-style-type: none"><li>- Arranging female employees to provide new employees with consulting on career development, job competence, and grievance handling</li></ul></li></ul>
Work-life balance	<ul style="list-style-type: none"><li>• Automatic transition to parental leave</li></ul>

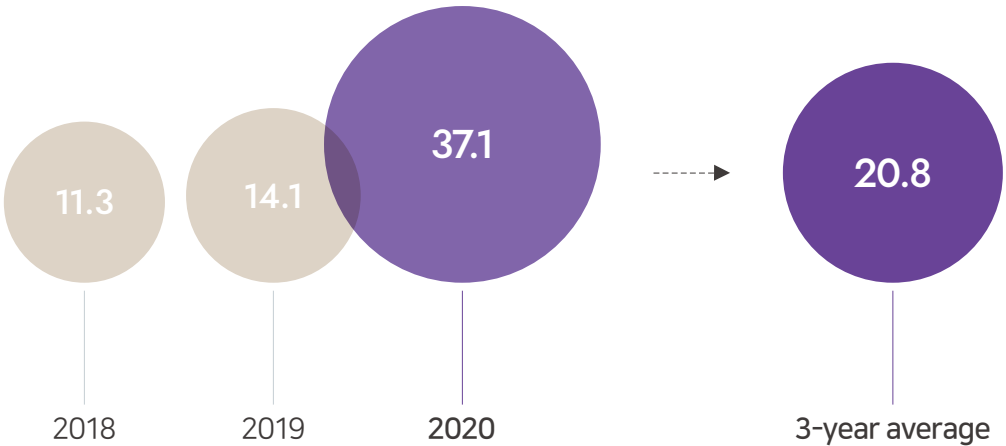
Work-family balance (work-life balance)

KT&G was certified as a 'Family-Friendly Company' by the Ministry of Gender Equality and Family in 2015. As a result of operating various maternity protection systems to help female employees maintain a work-life balance, the average tenure of female employees is found to be 16.7 years, which is more than double the average of the top 100 companies.

Notably, we provide systems and programs regarding childbirth and childcare to support smooth work. Female employees are automatically switched to parental leave without applying for maternity leave, and any employee with children under the age of eight may take parental leave for up to two years. We support 1 million won in the first year, and 2 million won in the second year after giving birth. In addition to this, we operate diverse support systems, including childcare allowance, in-house daycare (200,000 won for first and second children / 300,000 won for the third child), maternity leave system that can be used immediately after pregnancy (1 million won per month), and infertility treatment funds.

Recruitment of new female employees

(Unit: %)





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Intergenerational convergence

KT&G has adopted the system of recruiting high school graduates and re-hiring retirees. Accordingly, rather than considering conflicts between generations within the organization as a personal issue, we think of it as a matter that necessitates organizational review and improvement of organization culture. Therefore, we strive to foster convergence between generations at the company level through the Sangsang Junior Board and a job mentoring program.

Hiring high school graduates (including performance)

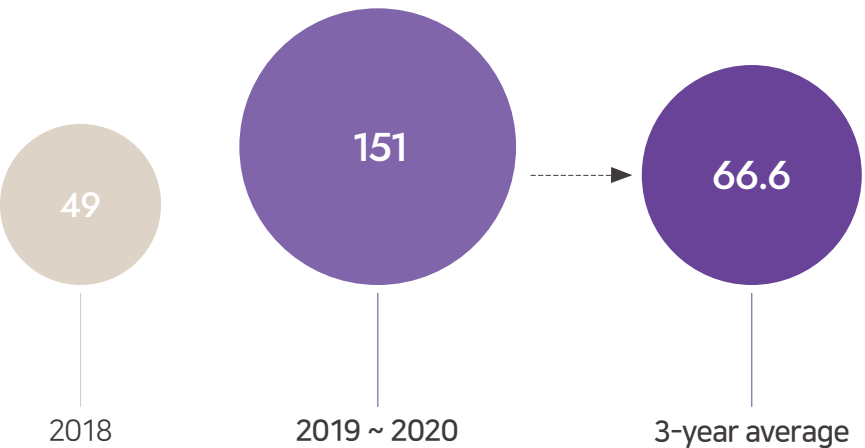
As of 2020, over 300 high school graduates are working at KT&G, with a proportion of 94.1% successful applicants. KT&G has been operating its customized high school graduate recruitment system for about ten years since its introduction. To ensure more objective and rational recruitment, we introduced an AI interview method in 2019 to provide fairer opportunities utilizing various verification tools.

Recruiting retirees

We create job opportunities for our retirees with excellent performance, skills, and experience as general contract employees in the manufacturing sector. We hired 31 retirees in 2019 and 50 in 2020, and some of these people are supporting the current employees in overseas plants to improve technical competency. We still provide them with the same welfare benefits as regular employees, such as children's school expenses and medical expenses.

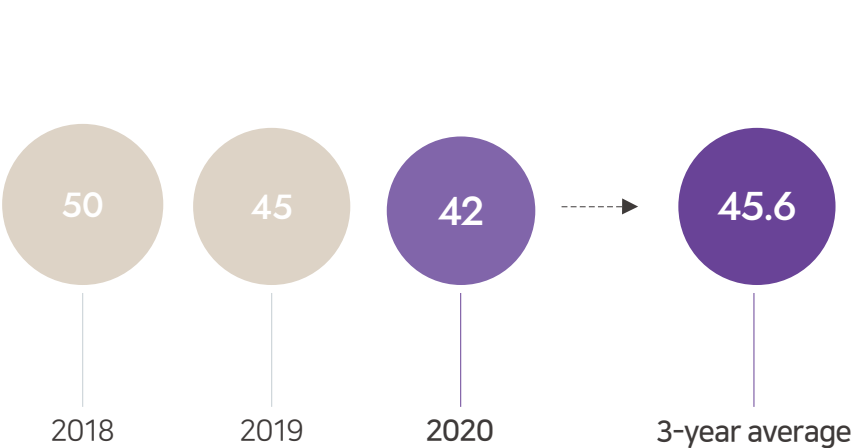
Hiring high school graduates

(Unit: persons)



Recruiting retirees

(Unit: persons)



Intergenerational convergence programs

**SangSang Junior Board**

Based on the belief that young people's free imagination and new sensibility can contribute to corporate value innovation, since 2010, we have been operating corporate culture improvement organizations made up of young employees such as Young Board, Imagination Realization Committee, and SangSang Junior Board.

**Support and education for prospective retirees**

We provide customized support so that employees can design the second act of life after retirement. We run the 'job change support leave' system to help employees prepare for starting business or changing job after retirement. For those who are expected to retire in the current year, training is conducted and conducted once every half year.



SangSang Junior Board, a next-generation leader council composed of MZ generation

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Embracing cultural diversity

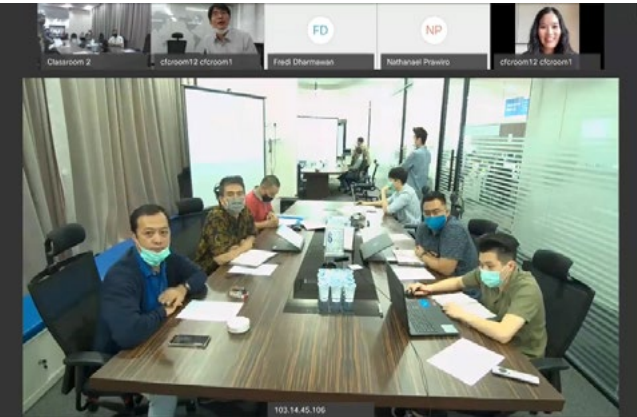
KT&G believes that a culture of diversity and inclusion can be successfully achieved alongside Glocalization (globalization + localization) within the group, provided that overseas employees grow into leaders of local corporations. For this purpose, we provide overseas employees with diverse opportunities to develop competency and grow into leaders and programs that allow them to adapt to each other's cultures.



Global M.V.P. course

Since 2016, KT&G Global Headquarters has conducted programs to understand the company and culture, understand the business value chain, i.e., manufacturing/R&D/sales, and enhance loyalty by inviting overseas employees with excellent competencies to Korea via the Global MVP course. Overseas employees who participate in the program are given the opportunity to develop their competencies and grow into leaders of the organization.

Additionally, our Indonesian subsidiary and the Chinese branch are nurturing the next-generation leaders of the local corporation by providing leadership & management training for overseas employees, team leaders/ managers, etc. Moreover, all our overseas subsidiaries provide various job training programs such as sales & marketing, negotiation, and communication, as well as an on-boarding program for local employees to adapt to the internal culture and develop job competencies.



On-boarding program in Indonesia

Equal Salary Policy Certificate



KT&G provides equal and fair opportunities to all employees depending on their abilities and competencies and implements a wage policy without discriminating against employees with the same qualifications and positions. In August 2021, in order to receive official recognition of our wage policy according to the professional and objective standards of a global non-profit foundation and an independent third-party verification institution and to use it as a starting point for sustainable human capital management policy and system development, we acquired the Equal Salary Certificate from the Equal Salary Foundation for the first time in a listed company in Korea.

The certification process lasted for about five months, including statistical analysis, employee survey, employee audit interview, and verification of the company's stipulated policy. Contrary to the title of the certificate, Equal Salary goes beyond reviewing statistical salary analysis and verifies a broader range of company policies and systems, such as recruitment, promotion, evaluation, compensation, and education throughout HR. After the statistical analysis of the payroll, a focus group interview was conducted to investigate the employees' perceptions of the policy and the audit procedure to identify the top management's commitment to and execution ability for equal treatment. It was then evaluated whether the factors that determine the fairness of sustainable salaries, such as promotion and compensation, are integrated into the overall HR operation process.

This event not only verified our equal wage policy but also assured that our policies and systems for equal treatment are integrated into the HR process. The certificate is valid for three years, and until 2024, we will have the policy monitored and verified every year to ensure its effectiveness.

Equal Salary certification process

			
Statistical analysis of salary data	Employee survey and verification of stipulated policies and practices	Audit interview with the top management and employees	Certification and monitoring
<ul style="list-style-type: none"><li>• <b>(Analysis)</b> Providing information such as monthly/annual salary, position, salary, leave status, job pay, etc.</li></ul>	<ul style="list-style-type: none"><li>• <b>(Survey)</b> 200 employees about corporate policies and practices</li><li>• <b>(Response to requests)</b> Submitting policies, establishment of management process, and data management plans, etc.</li></ul>	<ul style="list-style-type: none"><li>• <b>(Top management)</b> CEO/ Execitove Vice President</li><li>• <b>(HR management)</b> HR department, head of HR Office</li><li>• <b>(Executives and employees)</b> Worksite which are selected in random</li></ul>	<ul style="list-style-type: none"><li>• <b>(Certification)</b> August 2021</li><li>• <b>(Monitoring)</b> Annual audit</li></ul>

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Employee communication

Employee Relations

In April 2021, KT&G reorganized the Communication and Empathy Department, an in-house communication department established in 2015, into the ER (Employee Relations) team to create an advanced global-level corporate culture. The ER team concentrates on creating an environment where members can work with pleasure by adopting family-friendly management and smart works and developing member convergence content while building positive relationships between the members and their work/colleagues/company.

Examining organizational culture

KT&G pays attention to our members' opinions and strives to create an advanced, global organizational culture through an examination of organizational culture. In 2020, we developed a KT&G Culture Index, which consists of four areas: corporate vision/leadership/working method/relationship between members, and examined the organizational culture for systematic management. Reflecting the opinions obtained from the examination, we actively encourage the members to communicate with each other and improve working methods, thereby enhancing the entire organization's productivity. With systematic examination and practical follow-up activities, KT&G will keep our efforts to create a positive working environment for our employees.

Corporate culture diagnosis areas



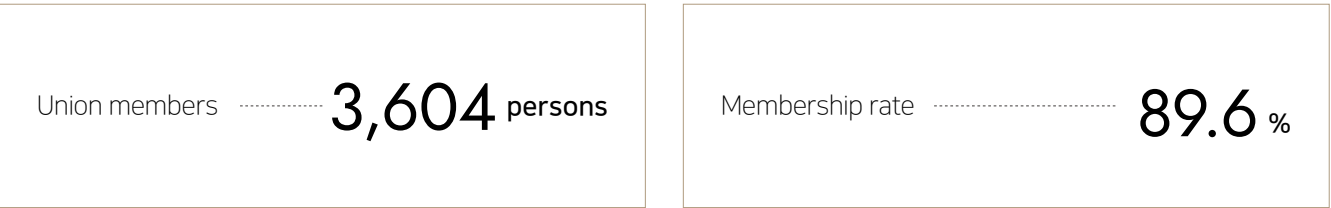
ESG participative campaign

Considering the current situation where government policies on ESG management are strengthened alongside the increasing stakeholder demands, KT&G held a participative campaign for making eco-friendly practices a part of daily life in order to strengthen its environmental, social, and governance (ESG) management and lead the way in solving environmental problems. Remarkably, in our 'Feel Green' Campaign, which denotes the theme of eco-friendliness, we are practicing environmental management in which employees participate, such as holding a contest for ideas for environmental protection in the office environment and providing tumblers. It consists of the contest for environmental protection ideas that can be easily implemented in daily life at work, starting with giving out tumblers to increase the participation of employees.

Labor union

KT&G respects the freedom of association as stipulated in the International Labor Organization (ILO) Agreement and domestic labor laws and guarantees the free activities of the labor union. The KT&G labor union was established in 1958 pursuant to the Association of Monopoly Trade Unions standards, and as of the end of 2020, about 3,604 of 4,023, which is 89.6% of the members, have joined. Every year, the labor union conducts collective bargaining and holds a labor-management council and occasional meetings with union members every quarter. We frequently discuss issues related to various topics, including human resources and salary, welfare system, industrial safety, and social contribution, and share directions for improvement. Especially in the case of a significant change in management, such as the COVID-19 outbreak, the labor and management agreed to set up a Committee on Stability of Employment with an equal number of management and union workers, not less than five but not more than ten under Article 94 (Committee on Stability of Employment) of the Collective Agreement, to hold discussions. As the two pillars of management, the KT&G labor and management have built an exemplary labor-management culture based on mutual understanding and deep trust. Since KT&G was changed into a public company, we have continued conflict-free negotiations.

Union membership rate (as of the end of 2020)





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### Communication channel with top board of directors



To create a dynamic and innovative corporate culture by paying attention to the opinions of the younger generation, who are the next generation leader in the organization, KT&G reorganized the 'Sangsang Realization Committee,' an organization created to improve corporate culture' in May 2021 to publicize the first 'Sangsang Junior Board,' consisting of MZ generations. The 10 'Sangsang Junior Board' members contribute to building a horizontal corporate culture by communicating with the board of directors on behalf of young members.

The 'Sangsang Junior Board' also plays the role of making management proposals to strengthen business competitiveness in preparation for the post-COVID-19 era. Along with the 'Sangsang Junior Board,' KT&G launched a CA (Change Agent) consisting of 19 employees representing 19 regional organizations, including sales organizations and plants across the country, to conduct activities to improve the corporate culture at the institutional level. KT&G will take the lead in creating a corporate culture that makes its members happy through the creative platforms' Sangsang Junior Board' and 'CA.'


### SangSang Junior Board corporate culture campaign

Smart leave culture campaign	S.O.S reporting culture campaign	EIP profile update campaign	Presentation to the CEO
July ~ August	September ~ October	October	December
Providing ring-back tones for vacation information, Kakao Talk room for business, etc.	Proposing efficient reporting guidelines and competition for company-wide ideas	Enhancing business communication by updating personal photos and duties	Untact communication activities
			

### Corporate culture communication channel

<b>Monthly video newsletter</b> – Dissemination of news from the SangSang Realization Committee	<b>Video content “four o’clock”</b> - Enhancing understanding of new class within the company and converge members  <b>“People who choose KT&amp;G, People chosen by KT&amp;G”</b> Interviews to convey challenges and dreams of various members such as job introduction and company adaptation stories
	

Notably, in 2020, KT&G is also carrying out the 'Ssudam Ssudam' campaign planned by the 6th Sangsang Realization Committee as an environmental campaign that involves eco-friendly management activities led by employees. 'Ssudam Ssudam' is a catchy expression for "throw cigarette butts in trash cans." It was designed to convey a message of environmental protection and improve street cleanliness by preventing littering. The pictogram of Ssudam Ssudam was applied to over 70 types of tobacco products sold in Korea, and campaign posters and images are posted on the public smoking facilities and cigarette butt collection boxes installed by KT&G.

<b>Ssudam Ssudam campaign</b> – “Smoking Etiquette Campaign” to improve awareness of smokers, such as preventing illegal dumping of cigarette butts	
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## Improving the employee’s quality of life (well-being)

### Pleasant workplace culture

#### The flexible working system and telecommuting

To cope with the rapidly changing work environment, KT&G implements selective working and staggered hours systems. Additionally, due to the spread of the untact culture caused by the COVID-19 pandemic, we adopted a digital technology-based system for telecommuting. Our employees can freely choose a flexible working system, and all pregnant female employees are working from home. Furthermore, by operating individual-customized leave systems such as C&C leave, job change support leave, and venture leave, with guaranteed wages, we do not spare efforts to optimize the work-life balance of our employees.

#### Complying with legal working hours

KT&G has introduced a PC-OFF system to comply with legal working hours to encourage workers to be punctual. In addition, we strive to eradicate unnecessary overtime work by regularly monitoring each employee's working hours.

### Quality of Life Improvement Program

#### Gahwamansaseong

KT&G's representative family-friendly program is 'Gahwamansaseong (meaning that all is well if the family is well),' which is held every year to share the joys and sorrows of employees' families. On three themes of celebration, support, and innovation, the 'KT&G 'Gahwamansaseong' has positioned itself as KT&G's unique family-friendly management brand that cares for the members as well as their families.

The program comprises various events such as giving celeb gifts to employees to celebrate pregnancy, childbirth, their children's admission to schools, and joining the company, sending a comforting postcard (gift) to those on sick leave, and supporting employees with high school graduates preparing to enter university. Lastly, the invitation program supports meaningful events of inviting families, such as Children's Day and Mother's Day.

Considering the ongoing COVID-19 pandemic, we are conducting timely programs with members (families) and with society. We delivered flower baskets and school supplies to congratulate families with children entering elementary, middle, and high school who had to celebrate a non-face-to-face entrance ceremony. Also, on major anniversaries (Children's Day / Mother's Day / Married Couple's Day), we provided flowers and the winning employee's self-written letter to his/her family (parents/spouse/children). As corporate citizens, we serve to support the flower farmers who are suffering from economic difficulties because every gathering that traditionally calls for flowers has been canceled during this pandemic and care for our employees and their families at the same time.

In addition, we are developing an onboarding program that provides eight products related to our subsidiaries and Sangsang Madang and a 'KT&G Welcome Kit' with a CEO message card included for regular employees (new employees/experienced employees) throughout the year.

## Employee Health

### Healthcare of Employees

#### Operating a healthcare room

KT&G is equipped with an in-house health management room. According to the Occupational Safety and Health Act, the health care room is located in an easily accessible, well-ventilated, and sunny place and is equipped with essential facilities and equipment. We have emergency over-the-counter medicines that can be purchased without a prescription and check for allergies and side effects before and after taking them and record the history of medicines supplied. Nurses are present in the health care room at all times, and their roles include health medical examination, counseling, first aid and medication, health education, and improving the work environment.

#### Supporting with health medical examination

According to the Occupational Safety and Health Act and our welfare guidelines, KT&G provides a detailed health medical examination to all employees every year in addition to the general health checkup conducted by the National Health Insurance Corporation. On-site workers at each plant and R&D headquarters are also included in special health medical examinations depending on the harmful factors (noise, night work, hazardous substances, etc.) they are exposed to. After the examination, we analyze the individual examination results and provide follow-up education on how to prevent chronic diseases, have a good diet, and exercise.

#### Health promotion programs

KT&G evaluates its employees' risk of cerebrovascular disease every year and investigates risk factors such as lifestyle and health conditions. We use this information to predict the possibility of developing a cerebrovascular disease in the future. Based on the evaluation result, we provide follow-up programs to manage high blood pressure to prevent cerebrovascular disease, provide individual counseling, etc., for those diagnosed with occupational diseases. We have finished planning for improving the work environment according to the investigation results of the musculoskeletal risk factors by the scheduled date.



# SAFETY AND HEALTH IN WORKPLACE

## Safety Management in Workplace

### Health and safety management policy and goals

KT&G strives to create a pleasant and safe workplace by pursuing health and safety-centered management, including the project sites. We aim to protect our employees and stakeholders from industrial accidents and conduct stable business activities in compliance with relevant laws, including the ‘Occupational Safety and Health Act.’ Accordingly, in 2021, we set the goal of maintaining the accident rate below that of the same industry and achieving zero severe accidents\*.

\* At least 1 death, 2 injuries requiring over 3 months of treatment, 10 people with occupational disease



### KT&G health and safety management policy

KT&G Corp. conducts business activities with a profound understanding of health and safety as fundamental factors of management.  
We sincerely practice the following improvement and prevention measures to create a safe and pleasant work environment that ensures healthy and happy employees.

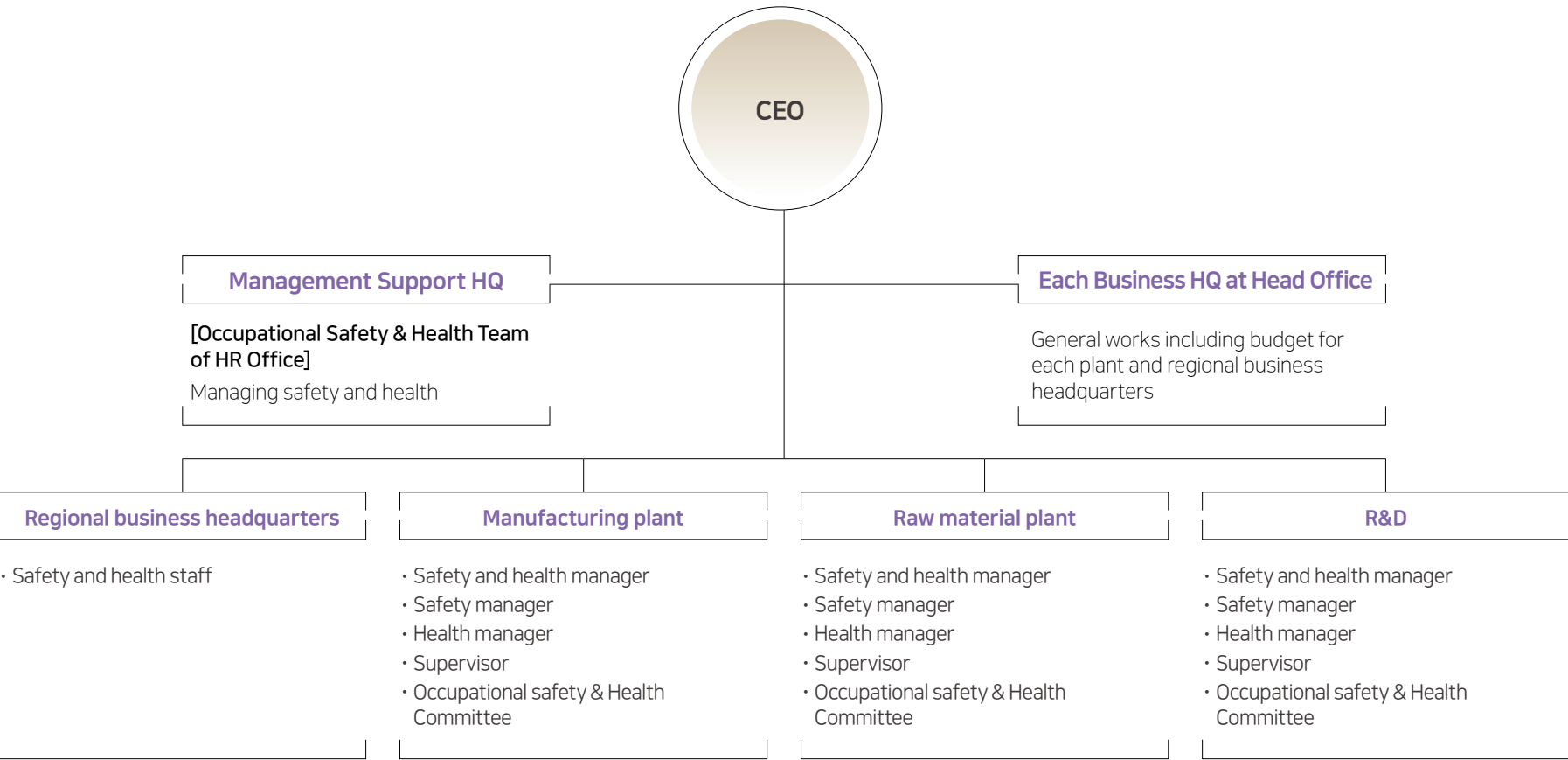




Health and safety management system

Our health and safety management organization manages general affairs related to health and safety utilizing the health and safety management system for each business site, such as the headquarters and affiliated organizations. With the goal of promptly supporting health and safety activities at workplaces, in 2020, the Occupational Safety and Health Team under the Management Support Headquarters was founded. In 2021, we are planning to expand and reorganize the existing Occupational Safety and Health Team under the direct control of the Vice President in response to increased management risks such as the enactment of the Serious Accident Punishment Act, etc.

As of the end of 2020, we have 194 employees in charge of health and safety management at the Headquarters and affiliated organizations, performing health and safety tasks and roles assigned to each position, such as the head of the institution, department head, and senior officer.



Status of health and safety activities

On the basis of the management policy prioritizing health and safety and systematic operation of the management organization, KT&G has maintained a lower accident rate than that of the same industry as of the end of 2020. 21 out of 23 workplaces, including the headquarters and manufacturing and raw material plants, accomplished zero accidents. From 2020 to the first half of 2021, we have been engaged in health and safety management activities, training, and disaster prevention measures. Examples include reorganizing the organization, certifying the health and safety management system, safe control of chemicals, responding to the COVID-19 pandemic, compliance consulting, and examining overseas manufacturing corporations.

Reorganizing the health and safety management organization

The Occupational Safety and Health Team, established in 2020, performs reinforced on-site inspection, provides instructions and advice to implement the health and safety management policy while minimizing business risks by conducting a preliminary review of relevant laws and regulations. In addition, we carry out activities for preventing industrial accidents for our stakeholders, such as employees and contractors, to support production and sales activities. In high-risk workplaces, including manufacturing plants in Sintanjin, Yeongju, Gwangju, and Cheonan, we have strengthened our ability to handle and manage on-site safety risks by hiring more health and safety control experts.

Recruitment of occupational safety and health experts in 2020

(Unit: persons)

Classification	Sintanjin	Yeongju	Gwangju	Cheonan	total
Occupational safety and health management	2	1	1	2	6

Acquired health and safety management system certification

KT&G is consistently carrying out prevention and improvement activities to improve the health and safety level of all employees and stakeholders. We acquired a new ISO45001 (Health and Health safety Management System) certification for five domestic plants (Shintanjin, Yeongju, Gwangju, Cheonan, and Gimcheon) in May 2021 to systematize health and safety management affairs and quantify various management indicators to maximize management efficiency.

Obtainment of ISO45001 certification

Workplace	Date of obtainment	Date of expiration
Sintanjin Plant, Yeongju Plant, Gwangju Plant, Cheonan Plant, Gimcheon Plant	2021-05-26	2024-05-25



ISO45001 certification

Implementing risk and compliance consulting

With the Serious Accident Punishment Act (Agenda) proposal in 2020, the overall health and safety-related statutes were reviewed, and objective diagnostic evaluation was carried out to respond to risks for each workplace. Over 300 items requiring improvements were derived as a result of the evaluation conducted on our nine institutions by a labor corporation and a specialized institution from December 2020 to February 2021, and our goal is to complete the improvements by 2021.

Risk factors according to the results of safety and health inspection

(Unit: cases)

Document supplementation	Facility	Building	Management service required	Items including protective gear	Promotion of safety signs, etc.	Safety management of suppliers	Safety-related expenses
71	97	68	1	12	48	3	4

HSE examination of overseas manufacturing subsidiaries

Overseas manufacturing subsidiaries are adopting a health and safety environment (HSE) management system in compliance with local labor laws and related regulations. However, with the recognition of needs for improvements in daily inspection activities, they developed a checklist and a simplified examination tool. In July 2020, the compliance officer of the subsidiaries located in Turkey, Indonesia, and Russia was responsible for examining each corporation's annual HSE plan and the status of using the checklist, daily inspection history, monthly report, and accident management, conducting regular training, and operating the HSE committee organization, and regarded 'insufficient matters' as matters that require improvements in the future.

HSE examination framework



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Health and safety training of employees

In order to substantialize occupational health and safety education, we are operating differentiated training courses for each subject. The legal training provided on a regular basis is performed when hiring new employees and changing duties, and different pieces of training are provided for legal seniors and those subject to special training. In addition, it has been subdivided into material safety data sheets (MSDS) and theme education reflecting recent trends, i.e., the COVID-19 pandemic. In 2020, we mainly adopted the online non-face-to-face training method to prevent the spread of infectious coronavirus diseases, and all 12,956 persons subject to regular occupational health and safety education completed the training.

Workplace risk assessment

KT&G has been operating its own risk assessment standards for workplaces used to identify and evaluate harmful risk factors and take measures for improvement. However, after realizing that different evaluation criteria adopted by different workplaces caused the issue of reliability, we decided to establish an integrated risk evaluation standard for the workplaces.

Redefining the evaluation managers to a supervisor and the workers to a process worker could clarify the subject. And adding a frequent evaluation to the existing regular evaluation allowed us to conduct risk evaluations in the case of new installation or renovation of processes, machinery, facilities, and buildings that have suffered a disaster. Furthermore, a step-by-step evaluation procedure has been established to enable the workers to monitor in a three-dimensional way.

In recognition of these efforts, KT&G's Daejeon Headquarters and Sintanjin plant were awarded for excellent health and safety management by the Daegu Regional Employment and Labor Administration and the Korea Occupational Safety and Health Agency, respectively.

Operating an emergency response system

KT&G operates an emergency response system for the safety of workplaces and all employees by establishing emergency action plans to deal with operational emergencies, i.e., fires and power outages as well as natural disasters, i.e., floods and typhoons. We also conduct evacuation drills to minimize loss of life and properties to ensure complete response in an emergency.

Emergency action plan and major management factors

Classification	Type	Management point
Operational emergencies	Fire	<ul style="list-style-type: none"><li>• Prevention of leakage of hazardous substances</li><li>• Rapid fire extinguishing in case of fire after leakage of hazardous substances</li><li>• Rapid recovery after fire extinguishing</li></ul>
	Fire in surrounding areas	<ul style="list-style-type: none"><li>• Observation and suppression of fire propagation trends</li></ul>
	Explosion	<ul style="list-style-type: none"><li>• Observation and suppression of fire propagation trends</li></ul>
	Leakage of chemical substances	<ul style="list-style-type: none"><li>• Establishment of emergency action plan against chemical leakage</li></ul>
	Blackout	<ul style="list-style-type: none"><li>• Establishment of emergency action plan against power outage accident situation</li></ul>
	Terror	<ul style="list-style-type: none"><li>• Prompt dissemination of the situation through the emergency contact network</li></ul>
	Emergency in manufacturing process	<ul style="list-style-type: none"><li>• Rapid countermeasures in accordance with situations</li><li>• Links with relevant department</li></ul>
Natural disaster	Flood	<ul style="list-style-type: none"><li>• Check on drainage facilities</li><li>• Situation propagation through emergency contact network</li><li>• Establishment of measures against electric short circuit</li><li>• Movement of vehicles or containers of hazardous materials to hilly areas</li><li>• Establishment of gas valve lockout and complete boiler fire extinguishing plan</li><li>• Establishment of countermeasures against flooding in real estate</li></ul>
	Typhoon	<ul style="list-style-type: none"><li>• Establishment of countermeasures against flooding</li><li>• Establishment of countermeasures against wind conditions</li></ul>
	Earthquake	<ul style="list-style-type: none"><li>• Establishment of primary countermeasures against building and facility collapse</li><li>• Establishment of countermeasures against secondary damage caused by primary damage caused by earthquakes</li></ul>



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SPECIAL PAGE

Establishing  
a COVID-19  
quarantine  
system

KT&G has established flexible standards and manuals and actively implemented activities to prevent infectious diseases in the workplace by adopting government quarantine guidelines for different stages of COVID 19. Under our quarantine system, fifteen quarantine managers were assigned for each headquarters. Those suspected of being infected or exposed to COVID-19 were instructed to take self-isolating and telecommuting measures and informed of the situation on our EIP bulletin board. In addition to this, we implemented possible quarantine measures to prevent infectious diseases. For example, we supplied quarantine products, disinfected the workplaces, lil Minimalium, and the service centers, supported COVID-19 diagnostic testing, divided sections within the call centers, encouraged telecommuting, and restricted the operating hours while controlling the workplaces at high risk simultaneously.

Minimizing business impact

Establishment and implementation of company quarantine rules by stage	<ul style="list-style-type: none"><li>Establishment and implementation of company quarantine rules according to government guidelines</li><li>Establishment of step-by-step company quarantine rules in accordance with the reorganization of the COVID-19 social distancing phase</li><li>Establishment of COVID-19 vaccine leave (Enforced on June 3, 2021)</li></ul>
Prevention activities by business field	<ul style="list-style-type: none"><li>Management of organizational activities</li><li>Management of visitors</li><li>Management of internal and external activities</li></ul>
Identification of current COVID-19 status and infection prevention activities	<ul style="list-style-type: none"><li>In-house self-quarantine status management and countermeasures</li><li>Daily report on COVID-19 status</li><li>Investigation and monitoring of the current status of COVID-19 vaccination</li><li>Sending text messages to prevent COVID-19 infection</li><li>Company-wide posting of issues related to COVID-19</li></ul>
Support of quarantine products for worksites	<ul style="list-style-type: none"><li>Stockpile of COVID-19-related masks (KF94)</li><li>Distribution of hand sanitizer and thermometer</li><li>Stockpile of acetaminophen for people vaccinated against COVID-19</li><li>Subsidy for testing fees for COVID-19 testing</li><li>Stockpile of COVID-19 self-diagnosis kits</li></ul>

Establishment of an in-house response system to prevent COVID-19 pandemic



Flexible working system and telecommuting

- Flex-time work system: Voluntary selection of work hours between 06:00 and 13:00 and work for 8 hours
- Alternate holidays: Alternate between holidays and normal working days upon application and consent of the applicant
- Optional working hour system: Independent implementation by employees' application and approval of the head of each subsidiary
- Telecommuting: Independent implementation under the judgment of the head of each subsidiary, voluntarily setting the working hours between 06:00 and 22:00, creation and submission of a work diary
- Telecommuting is mandatory to all pregnant women.
- When childcare is required due to the postponement of kindergarten, elementary, middle and high school, use of telecommuting, annual leave, family care leave, etc. is recommended



Full support for COVID-19 treatment costs

- Support for full diagnostic test costs
- Sick leave is granted during the period if the result of COVID-19 treatment is confirmed, and quarantine measures are necessary.



Overseas visitors

- Recommend to avoid overseas business trips or travel
- Employees who have been on a business trip abroad are granted telecommuting or sick leave within 14 days of returning to their home country.
- Individual overseas travelers are recommended to use annual leave within 14 days of returning to their home country

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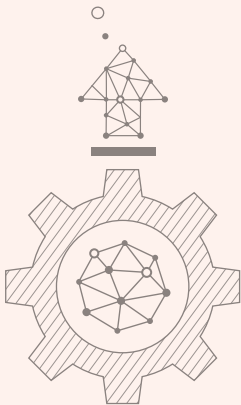
Pillar 4.



“We will strengthen our supply chain competitiveness by securing purchasing objectivity and requesting improvement through partner evaluation management.”

Pillar Highlights: **Implementation of the Partner Sustainability Evaluation System**

KT&G established the Code of Conduct for partners to spread the company's social and environmental responsibility culture to partners and to reduce related risks in the supply chain. In addition, we conduct regular evaluations to encourage partner companies to comply with the Code of Conduct in order to improve the ESG management performance of the company and its partners by evaluating the contract fulfillment capability of trading partners.



Sustainability in  
the Supply Chain

## SUSTAINABILITY IN THE SUPPLY CHAIN



## Enhancing the Sustainability of Supply Chain

## Improving sustainability in the supply chain

## Code of conduct for partners

KT&G has established a code of conduct for partners to spread a culture of fulfilling social and environmental responsibilities and reducing related risks in the supply chain. The code of conduct for partners serves as a guideline to reflect on their social and environmental responsibility in the process of partner selection and comprehensive evaluation. It serves to evaluate ESG management items and partner's ability to fulfill contracts and request improvement on insufficient matters, thereby gradually improving the supply chain's sustainability.

## Code of conduct for partners



### Special Terms and Conditions for the ethical practice of partners

In order to enhance the ethical management in the supply chain and minimize internal and external risks, KT&G has established the 'purchase regulations.' The 'KT&G Special Terms and Conditions for Ethical Practices' are mandatory when signing a contract with partners to motivate them to participate in ethical management.

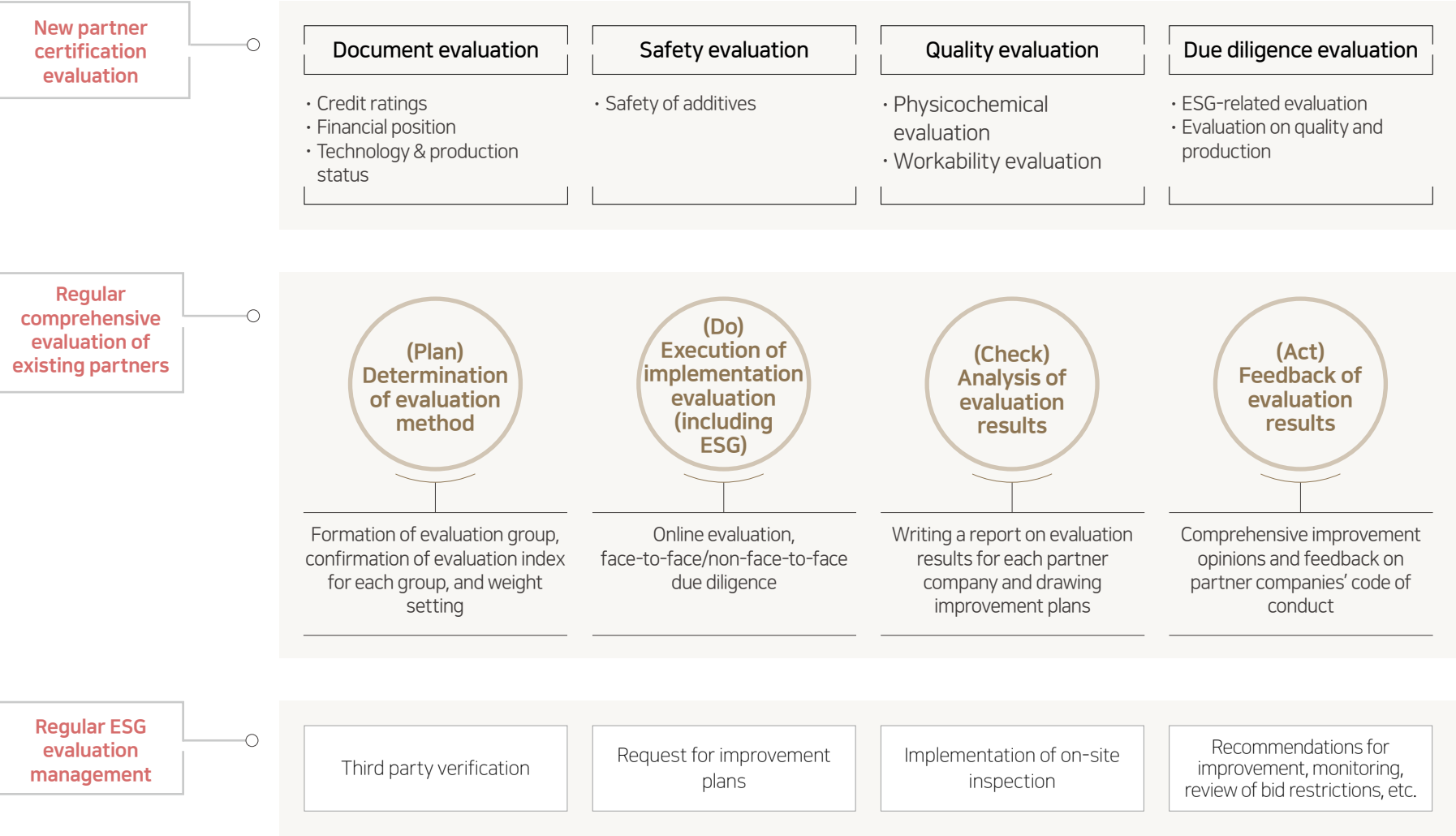
### Three Clauses in the purchasing regulations for the ethical practice of partners (Articles 24-26)

1. We shall maintain business relationships with partners that comply with laws and regulations on ethics, human rights, labor, environmental safety, and occupational health.
2. We shall comply with the Fair Trade Act, the Subcontracting Act, and the Win-Win Cooperation Act for fair procurement.
3. We shall comply with the "Four Guidelines for Win-win Cooperation between Large/Small and Medium Enterprises" presented by the Fair Trade Commission



## Supply chain assessment process

Partner evaluation and management aim to strengthen the competitiveness of the overall supply with secured purchasing objectivity and improve the partner's capabilities to fulfill contracts. The SQ Supply Quality Assessment is utilized for discovering and selecting new partners, and regular comprehensive evaluation is conducted to our existing partners to maintain sustainable cooperative relationships with existing partners based on regular comprehensive evaluations. ESG evaluation is included in both credential evaluation and comprehensive evaluation of the supply chain to minimize risks.



## Credential evaluation of new partners

In selecting new partners, KT&G conducts a credential evaluation (SQ) that includes human rights, labor conditions, environment, and business management capabilities. The duration of the certification is three years, and 83 companies have been certified since 2011 after screening 85 companies. Upon the findings that a partner is ineligible for the terms and conditions for the credentials during the screening process, we notify the partner of the details and reason for disqualification while the partner takes improvement measures for re-screening. At the request of re-screening of a partner that completely compensated for the reasons for disqualification, we grant credentials after a pre-screening process. 40% of the evaluation items for credential evaluation of partners are ESG-related, and our evaluation team consisting of employees with related work experience or certifications conducts a site inspection.

### New partner certification evaluation items

Item		Definition	Evaluation question
Human rights and working conditions	Human rights	Evaluation of control systems that respect human rights and ensure fair working conditions	
	Working conditions		
	Safety & health		
	Grievance handling		
Environment	Pollution prevention	Evaluation of environmental control systems such as identification and reduction of pollution sources and efficient use of resources	• Setup of related policies
	Resource recycling		
	Chemical substance		
Ethics	Corporate ethics	Evaluation of the control system to prevent corruption, such as bribery and conflicts of interest	• Operation of related programs
	Pre-/post-management		
Business management	Human resources	Evaluation of overall management system for sustainability	
	Supply chain management		
	Product & service		
	Local communities		

Regular comprehensive evaluation of existing partners

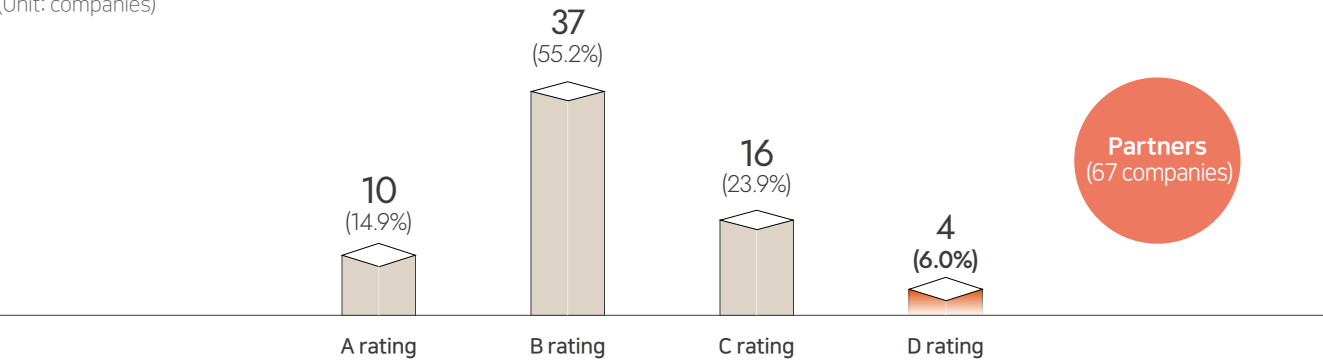
The regular comprehensive evaluation of existing partners comprises 6 indicators, including finance, ESG, quality control, delivery quality, degree of cooperation, and international certifications. In 2020, we conducted a comprehensive evaluation of 67 companies who accounted for around 97.2% of our total purchasing amount, and requested four non-conforming partners (grade D) to submit improvement plans. They submitted improvement plans in July 2021, and KT&G has scheduled to conduct on-site inspections in October.

Evaluation scope and target

Evaluation group	Evaluation index	Target
I	Finance / ESG / quality control / delivery quality	Manufacturing partners that require quality control as important (filter plug, tip paper, etc.)
II	Finance / ESG / delivery quality / cooperation	Over KRW 100 million worth purchasing
III	Finance / delivery quality / cooperation	Less than KRW 100 million worth purchasing
IV	Finance / delivery quality / cooperation / international certification	Overseas partners

Comprehensive evaluation result in 2020

(Unit: companies)

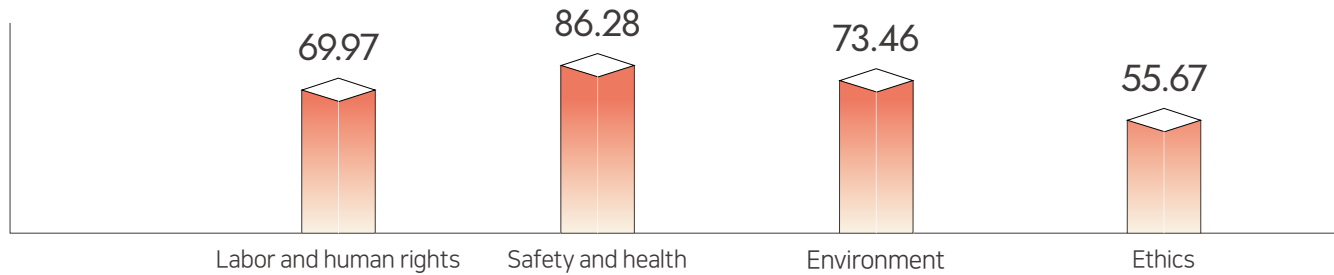


Regular ESG evaluation of existing partners

Regular ESG evaluation is conducted for 53 partners (Groups I and II members who supply at least KRW 100 million, respectively, and account for over 95% of our total purchasing amount). It is commissioned to a third party to minimize legal risks and ensure the professionalism of the evaluation process and the objectivity of the results. The evaluation is classified into five indicators and comprises online self-evaluation and on-site inspections. It consists of 87 items related to labor and human rights, safety and health, environment, ethics, and management system. ESG evaluation results are reflected in the comprehensive evaluation of the partners.

Result of regular ESG evaluation

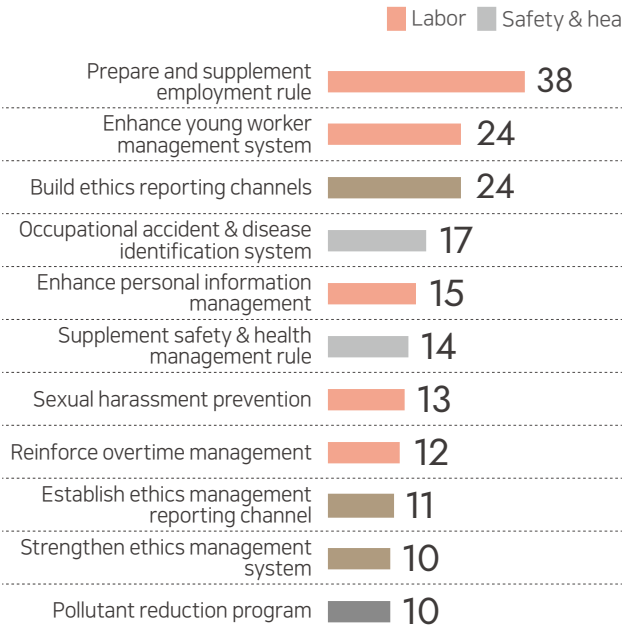
The result of partners' ESG evaluation conducted in the first half of 2021 presented average 68.66 points (19.51 points of standard deviation). The highest was 100 points and the lowest was 23.70 points. Safety and health sector marked 86.28 points, proving excellent performances, while ethics sector was judged that improvement was most needed with 55.67 points.



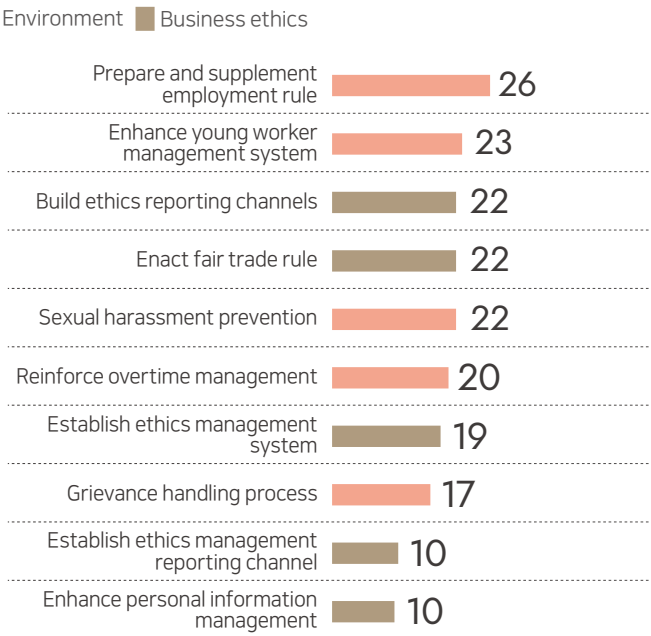
Improvement tasks

As a result of the ESG evaluation, both manufacturing and service partners are required to establish and supplement policies including employment rule. As for manufacturing partners, improvement tasks were derived for industrial accident management and establishment of safety and health regulations in the safety area.

Manufacturing partners' improvement tasks

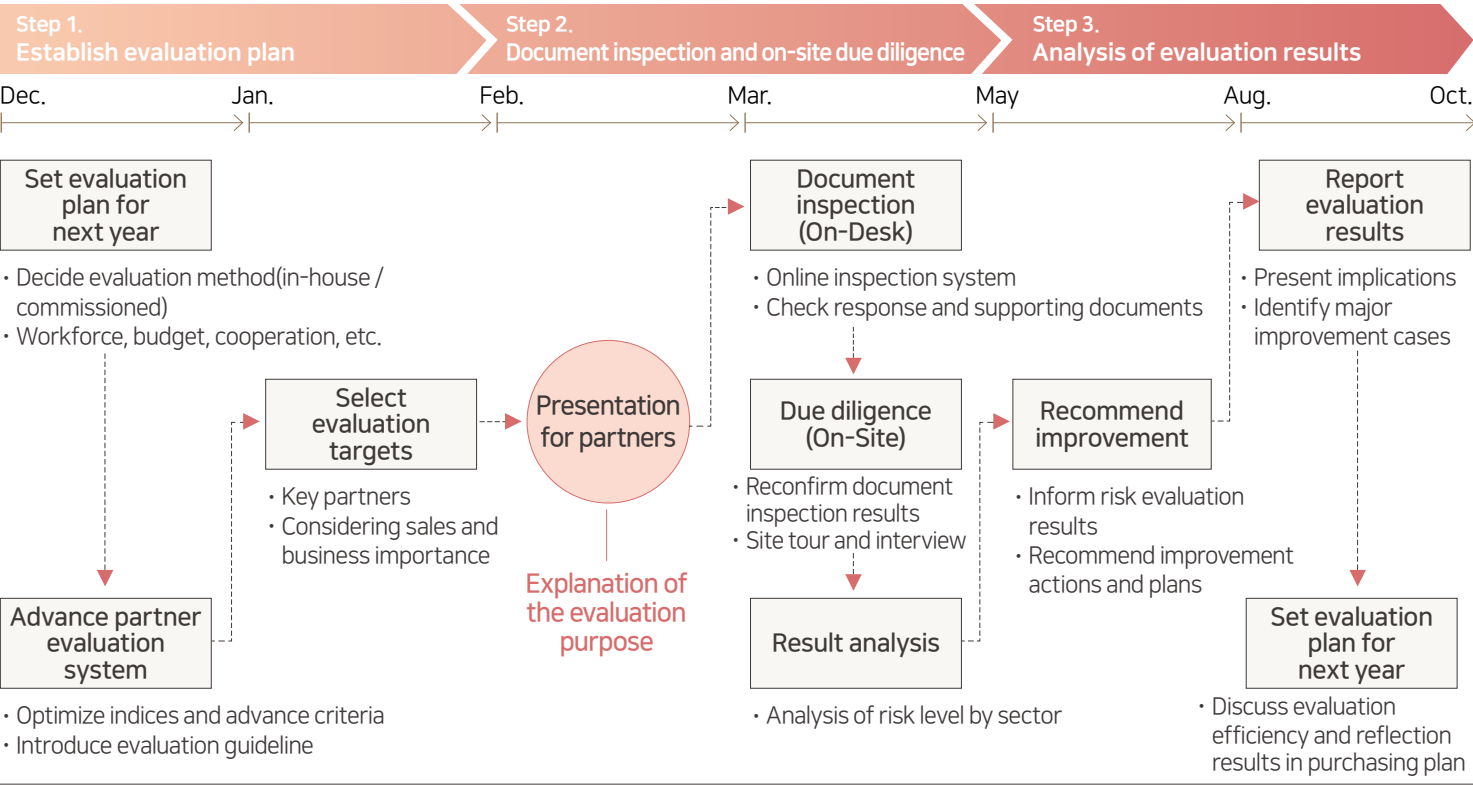


Service partners' improvement tasks



Regularizing the Evaluation Process of Partners

KT&G identified potential risks that were not derived from the evaluation indicators from the written and on-site inspections conducted for ESG evaluation of partners. Notably, in the future, KT&G aims to regularize ESG evaluation of partners and continue monitoring potential risks to identify risk factors likely to violate the law in advance.



Shared Growth in the Supply Chain

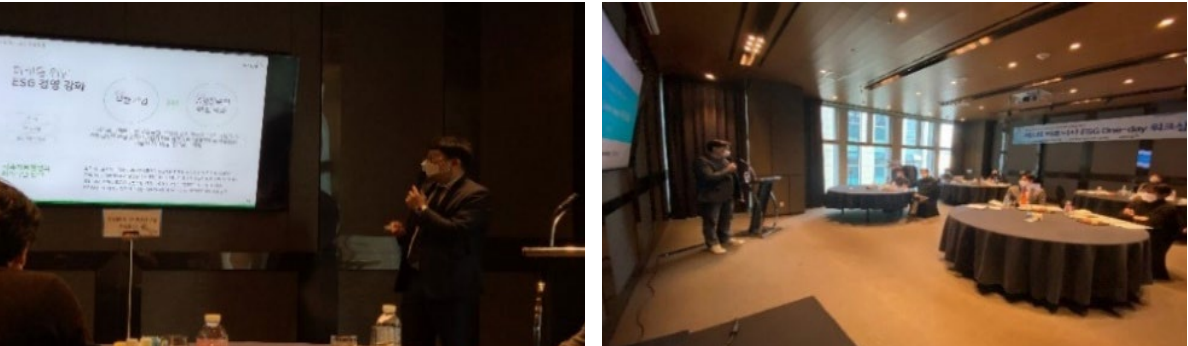
Supply chain management

Funding the supply chain

We operate various funding systems for our partners facing financial difficulties, including leaf tobacco farmers. Our partners of material manufacturers are paid 100% in cash within the given business day of the following month, and it is strongly recommended that primary partners pay cash to secondary partners by the 25th of the following month. In 2020, we supported our partners by early execution of about KRW 27.2 billion before the holidays. In addition, KT&G strives to relieve the burden on our partners by raising the purchase contract amount when the partner experiences an increased burden compared to the contracted time due to cost fluctuation factors, i.e., an increase in raw material prices.

ESG training for partners

With the goal of maintaining sustainable management of partners, in 2020, we invited the CEOs of major materials (filter plugs, tip papers, and flexible wrapping paper) partners to support ESG training. In 2021, each of our partners will hold an in-depth workshop to derive actionable environmental indicators.



ECO-Cargo program

With the increased demands for low-carbon green growth and transition to eco-friendly supply chains, KT&G has launched the ECO-Cargo program (ECO mileage, ECO change) to strengthen ESG management capabilities in the transportation sector.

ECO mileage

With the intention to reduce carbon emissions and fuel use by adopting the eco-friendly economic driving strategy, KT&G has been implementing the ECO mileage program since April 2021 for five partners that have signed transportation contracts with us. Ninety vehicles are participating in practicing eco-friendly economic driving and based on quarterly performance, and the top 10 vehicles will be compensated for preferential transportation section. As of June, the average driver's score was 97.6, showing an increase of 83 points from the initial stage, contributing greatly to improving driving habits and reducing truck carbon emissions.

ECO change

The ECO Change is established to achieve eco-friendly and win-win management with our partners by replacing aged cargo vehicles. It applies to ten-year-old vehicles with a transaction record of more than seven years with KT&G. If the partner makes a final decision on whether to replace their selected vehicle by September and submits the proof of replacement with a new vehicle, KT&G will pay 5 million won per vehicle. In case a selected partner decides not to replace their vehicles, the chances are passed on in the order of preliminary candidates. KT&G plans to practice green logistics through the ECO change program actively.



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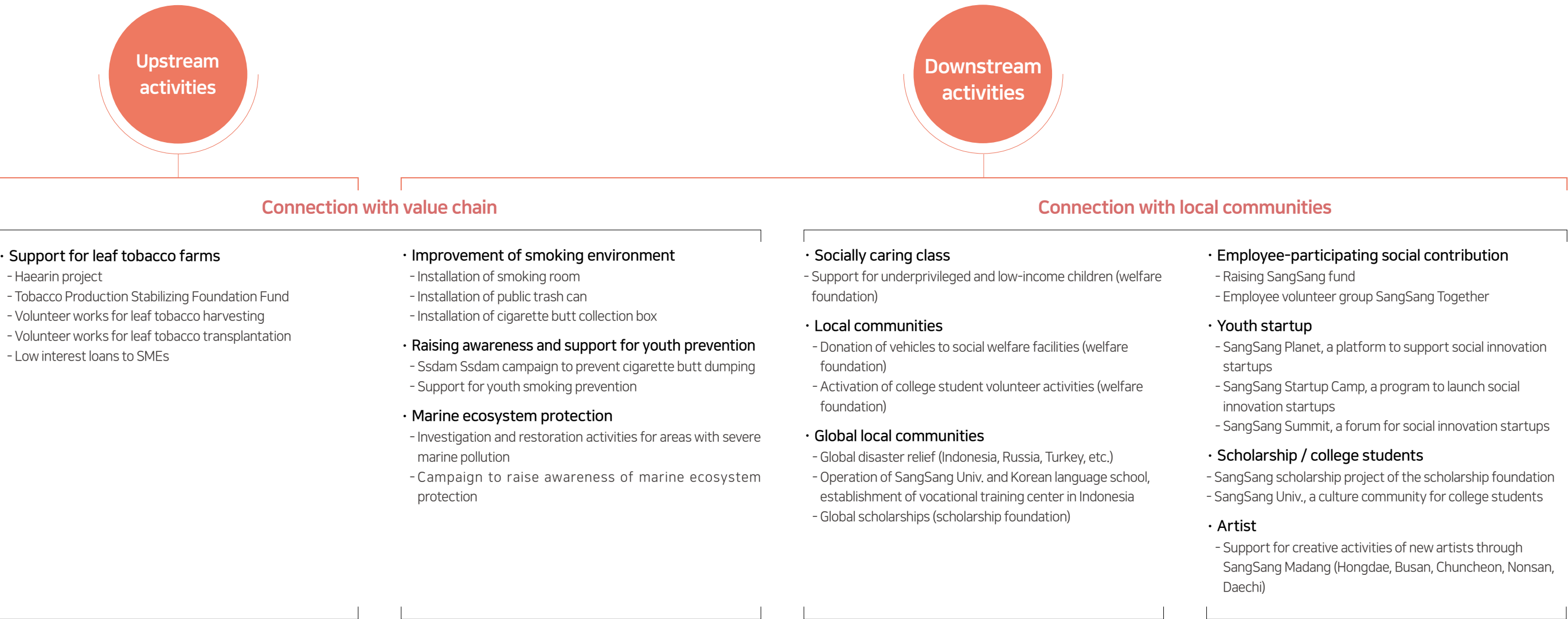
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Social Contribution

Value chain of social contribution

As a corporate citizen, KT&G faithfully fulfills its social responsibilities and pursues the sustainable development of the company and society by creating shared values. Under cooperation with each relevant department led by the Social Contribution Office, an organization dedicated to win-win cooperation, we conducted value chain-related activities and social contribution activities that contribute to local communities through KT&G's dedicated platform. We strive to create a society where everyone is happy and engaged in various activities, including social responsibility activities related to the business, i.e., supporting leaf tobacco farms, social welfare, youth entrepreneurship, and culture and arts.



Supports for Leaf Tobacco Farms

Purchasing of domestic leaf tobacco

In 2001, as the monopoly of tobacco manufacturers was abolished, it is no longer necessary to purchase Korean leaf tobacco. However, KT&G purchases the entire amount of leaf tobacco produced in Korea every year and uses it in its products to help domestic leaf tobacco farmers grow leaf tobacco stably. In 2020, we purchased about 770 tons of leaf tobacco worth 74 billion won and planned to further purchase about 8,000 tons in 2021.



Purchasing of domestic leaf tobacco in 2020

Farmers	2,960 persons
Leaf tobacco	7,741 tons
Purchasing amount	KRW 74.5 billion

Supporting to stabilize leaf tobacco production

To support leaf tobacco farmers' economic and social stability and productivity growth, KT&G actively contributes to the funding of 'Tobacco Production Stabilization Foundation.' An executive of KT&G has been appointed as a board member of the foundation and participated in fund management to stabilize the domestic leaf tobacco production base.

Raising fund

(From 2002 to 2020, accumulated) (Unit: KRW 100 million)



■ KT&G	4,073(81%)
■ Other tobacco companies (BAT and PM, etc.)	939(19%)

Two-way communication with farmers

KT&G communicates with leaf tobacco farms to identify difficulties in the field and solve them together. In 2020, we helped improve the leaf tobacco trimming and packaging process production efficiency to solve the workforce shortage caused by the COVID-19 pandemic. Furthermore, in order to increase the income of cultivators and ease the environmental burden, we are piloting the change of leaf tobacco packaging materials to recycled cartons.

Coexistence with leaf tobacco farmers

KT&G is providing support in various fields for coexistence with leaf tobacco farmers. We pay 30% of the scheduled leaf tobacco purchases in advance from April to May at no interest (the balance is paid from September to December after harvest) and provide annual health medical examination expenses and children's education funds to promote the welfare of the farm members. Moreover, our employees actively participate in volunteer activities during the planting and harvesting seasons when there is a shortage of workers. In 2020 and 2021, we supported consolation funds to recover leaf tobacco farms damaged by natural disasters quickly.



Support for leaf tobacco farms (from 2013 to 2020)

Farmers	6,912 persons
Support amount	KRW 2.45 billion

Supporting to create additional income for leaf tobacco farms

KT&G operates a business for supporting the cultivation and sale of red pepper of leaf tobacco farmers to help them create additional income by using resources such as farmland and technology. In 2020, we concluded a contract with 21 cultivators to purchase dried red peppers worth KRW 295 million.



Support through the Haearin project in 2020

Farmers	21 persons
Dried red pepper	11,640 kg
Purchasing amount	KRW 295 million

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- Risk Management
- Enhancement of Shareholder Value

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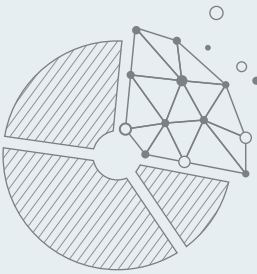
Pillar 5.



“KT&G has been improving the policy for the evaluation and compensation of the top management and strengthening the connection between the policy and sustainability management value.”

Pillar Highlights: **Connection between the evaluation and compensation of the top management and sustainability management value**

KT&G is strengthening the ESG value linkage in the evaluation and compensation of top management. In order to actively respond to the rapidly changing ESG management environment, we have strengthened the indicators for establishing and internalizing the ESG management system in the CEO evaluation. In line with increasing importance of shareholder value connected compensation system, we introduced the performance-based stock rewarding system at the BOD meeting in May 2021 and determined that parts of the CEO’s long-term performance pay would be granted through stocks. By including sustainability value in performance evaluation, we intend to increase our long-term corporate value based on ESG management.



- Corporate Governance
- Business Ethics and Compliance
- Risk Management
- Enhancement of Shareholder Value



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# CORPORATE GOVERNANCE

## Sound Corporate Governance

[Articles of Incorporation / BOD rule](#)



[Corporate Governance Report](#)



[Corporate Governance Charter](#)



### Board of Directors

As the premier permanent decision-making body in the company, KT&G Board of Directors sets the core management goals and policies such as ‘mid and long-term strategy and business plan’ to maximize interest for shareholders as well as the company. Board of Directors fulfill its most fundamental function by keeping the management activities in check and ensuring that decisions are made in a reasonable manner.

Especially in 2019, we reorganized the roles and functions of Board of Directors and the sub-committees through the ‘governance advancement project’ aimed at improving the company governance. Then in 2020 when EGS management was growing in importance, we revised Board of Directors regulations to allow directors to decide on the ‘matters regarding the establishment and implementation of ESG strategy’ on September 22nd.

### Operation of Board of Directors

Matters related to general operation of Board of Directors such as responsibilities, power, and procedures are set forth in the Articles of Incorporation and Board of Directors Regulations. Board meetings are convened both on a regular and irregular basis in accordance with the Article 34 of Articles of Incorporation and Article 9 of Regulations. A total of 14 sessions (7 regular and 7 irregular meetings) were held in 2020 and ESG management plan was presented to reinforce functions of Board of Directors, in particular, regarding ESG management. KT&G shares materials with directors regarding the floated agenda before Board of Directors meetings and holds briefing sessions as necessary, thus ensuring that directors have in-depth and efficient meetings.

### Process of Appointing CEO

KT&G advanced the process of appointing CEO through the ‘governance advancement project’ undertaken in 2019. With the establishment of the Governance Committee in 2019, we revised and updated regulations on governance such as matters regarding establishment and operation of president succession plan and matters regarding training program for president candidate. Also by granting Governance Committee the power to decide on matters regarding CEO succession, we reinforced the CEO candidate verification process from the existing two-step structure of ‘president candidate recommendation committee - Board of Directors’ to three-step structure of ‘Governance Committee - President Candidate Recommendation Committee - Board of Directors’, thus securing independence and transparency from candidate recommendation.

### Process of Appointing External Directors

In accordance with the Article 542-8 of the Commercial Act, the External Directors Recommendation Committee recommends independent candidates through a transparent and fair evaluation process. The External Directors Recommendation Committee screens candidates recommended by Governance Committee according to the rigorous set of evaluation criteria before sending the short list to the shareholders' meeting. The company specifies the qualifications for external directors as 'independent individuals with professional knowledge and experiences on economy, management, law, or relevant technology, but without disqualifications set in relevant regulations.'

### Operation of teams dedicated to assisting external directors

KT&G operates teams dedicated to assisting external directors (Office of Strategy and Planning and Management Coordination Division) to support external directors. Their tasks include arrangement of Board of Directors meetings, providing relevant information, training on implementation of duties, and support for compliance, all aimed at ensuring effective operation of Board of Directors.

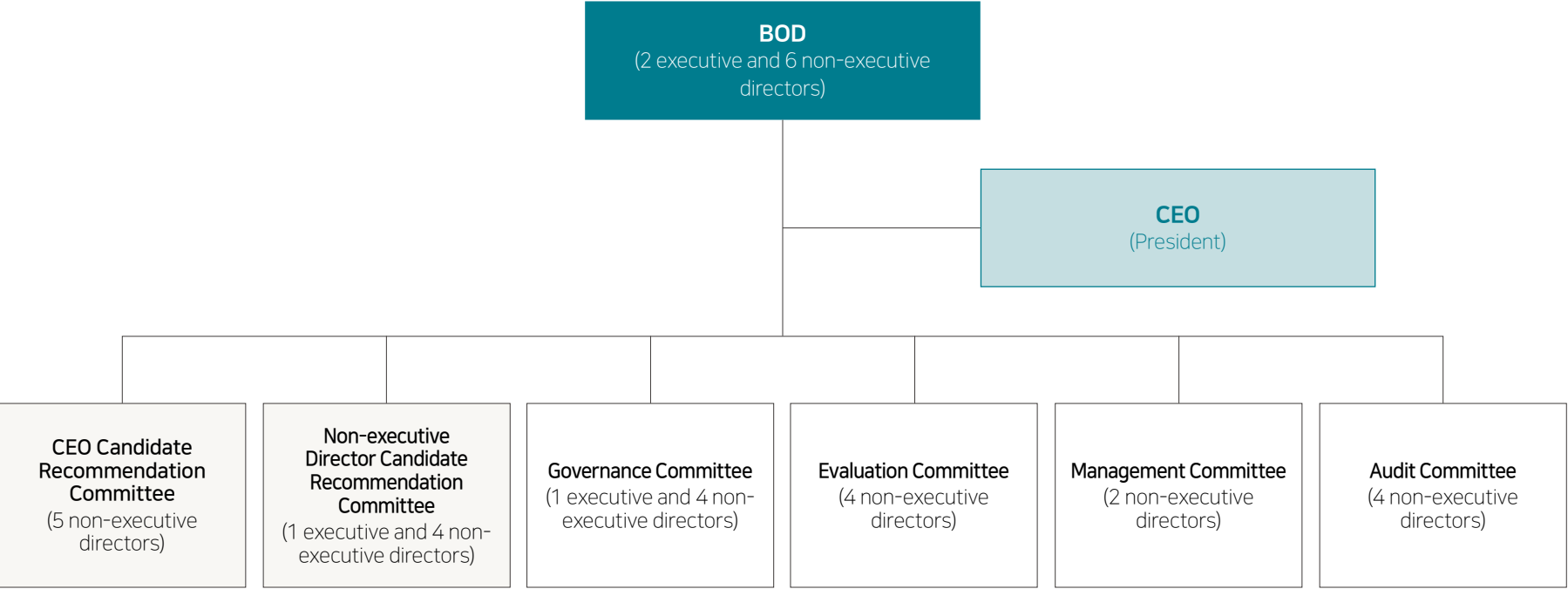
Structure of Board of Directors

In order to ensure effective discussion and decision-making, KT&G's Board of Directors consist of members with professional capabilities and diverse backgrounds. External directors take up a higher share in the seats of Board of Directors so that they can make independent decisions required to monitor the management. As of the end of April 2021, Board of Directors consist of 8 directors (two internal and six external), with external directors accounting for 75% of the members, thus exceeding the required share under relevant laws and regulations. External directors possess practical expertise in management, finance, accounting, global, law, and ESG management. Their expertise is not confined to a specific background or field. We began appointing female external directors since 2016 to ensure diversity in knowledge, experience, capabilities, and gender.

BOD composition (As of Apr. 30, 2021)

Classifi- cation	Name	Gen- der	Position	Appointed	Expira- tion	Profes- sionalism
Exec- utive director	Baek, Bok-in	Male	CEO Management Committee Chairman	2015.10.08	2024	Professional manager
Non-ex- ecutive director	Bang, Kyung- man	Male	Head of Business Division and Strategic Planning HQ	2021.03.20	2024	Professional manager
	Youn, Hai- su	Male	BOD Chairman	2016.03.19	2022	Professional manager / external cooperation
	Lee, Eun- kyung	Fe- male	-	2016.03.19	2022	Finance
	Baek, Jong-soo	Male	Governance Committee Chairman	2018.03.17	2024	Law
	Kim, Myung- chul	Male	Evaluation Committee Chairman	2020.04.01	2023	Global / finance
	Koh, Yun- sung	Male	Audit Committee Chairman	2020.04.01	2023	Finance / accounting
	Lim, Min- kyu	Male	-	2021.03.20	2024	Global / ESG

BOD organization



※ The CEO Candidate Recommendation Committee and Non-executive Director Candidate Recommendation Committee are non-standing committee.

Sub-committees under Board of Directors

KT&G Board of Directors operates sub-committees to ensure specialty and efficiency. Sub-committees include Governance Committee, Evaluation Committee, Management Committee, and Audit Committee. Non-permanent committees are President Candidate Recommendation Committee and External Director Recommendation Committee. All committees, except for Management Committee, have external directors who take up the majority number of directors for the purpose of enhancing independence. Committee head is appointed from one of external directors.

Subcommittee (As of Apr. 30, 2021, standing committees, unit: persons)

Subcommittee	Non-ex- ecutive	Execu- tive	Total	Ratio of non-ex- ecutive directors	Chair- person	Remark
Governance Com- mittee	3	1	4	75%	Baek, Jong-soo	Non- executive
Evaluation Com- mittee	4	0	4	100%	Kim, Myung- chul	Non- executive
Management Committee	0	2	2	0%	Baek, Bok-in	Executive
Audit Committee	4	0	4	100%	Koh, Yun- sung	Non- executive

Evaluation and rewards

KT&G runs Evaluation Committee which exclusively consists of external directors. They conduct management evaluation on a yearly basis to ensure fair reward for CEO and the management. Evaluation Committee resolves matters regarding wages and retirement allowance for managing executives and severance pay for employees, and sets management goals to be agreed with president candidate. In addition, it reviews matters related to wages and retirement allowance for president and internal directors in advance, while resolving management evaluations and reward for president. Evaluation Committee was convened twice in 2020, resolving matters such as evaluation of CEO's short-term management goals and short and long-term management evaluations of the previous year.

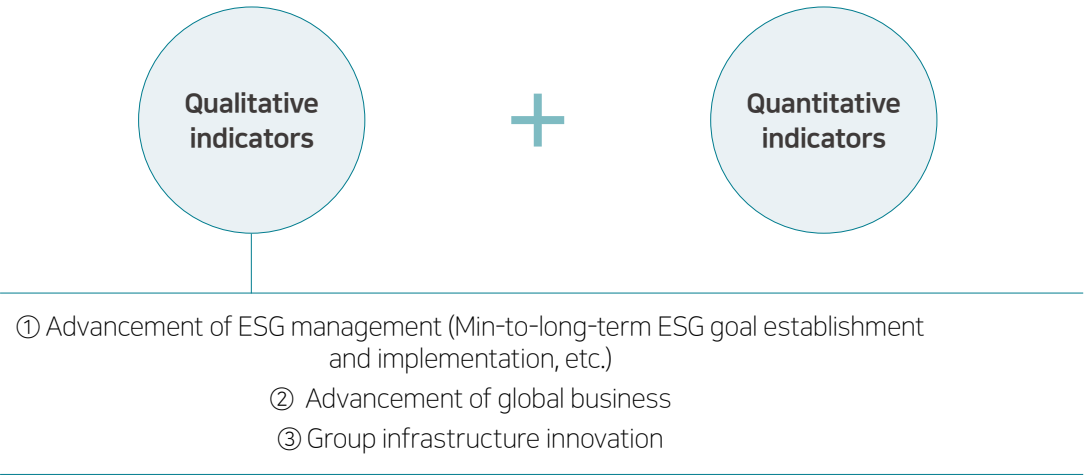
CEO evaluation and reward

KT&G evaluates CEO performance against indicators for ESG management and internalization thereof to ensure top management carry out activities aimed at generating long-term values for the company. We strive to raise the company value through ESG by tying ESG management performance with KPIs.

As part of efforts to improve the wage system for top management, we decided to pay the CEO a certain amount of long-term bonus as stocks. We strive to maximize shareholders' value by encouraging responsible management and aligning shareholders' interests with that of management through the performance-based stock rewarding system.

KT&G will maintain rewarding programs based on the best efforts on the part of the management and their performances rather than depending on unilateral rewarding system.

CEO evaluation indicators that reflect ESG factors



\* KT&G is operating a policy of recovering and reducing short-term and long-term incentives for the parties concerned when matters related to the management's intentional or gross negligence or payment errors are identified.

External director evaluation and reward

The Article 34-6 of the Article of Incorporation and the Article 17 of the Board of Directors Regulations of KT&G stipulate that 'Board of Directors may conduct independent evaluation of external directors for their performance and activities'. Hence, evaluation of external directors is conducted on a yearly basis to ensure effective operation of Board of Directors and reasonable improvement of the company governance. Evaluated items included, among others, ① roles and responsibility of Board of Directors, ② operational efficiency of Board of Directors, ③ Sub-committee under Board of Directors, and ④ mutual evaluation among external directors. The evaluation consists of 5-point items and opinions hearing through description.

Wages for external directors are set in consideration of that in the same industry, rival companies, or businesses with similar asset size. Wages are approved in shareholders' meeting and paid not to exceed the cap for the approved amount. Specific amount, or method of payment are set by Board of Directors. Wage paid to external directors comprises actual costs such as duty allowance and traveling costs. They are paid in connection with external directors' performance to ensure that the wage system is aligned with shareholders' long-term interest.

Evaluation item		Points (out of 5)
Role and responsibility of the BOD (4.80 points)	Fair and faithful performance of duties for the benefit of the company and all shareholders	4.86
	Review of major strategies and financial goals, etc. and continuous observation of the degree of achievement	4.71
	Active participation in the management evaluation and compensation	4.86
	Supervision and checks on the management	4.71
	Understanding corporate ethical and social responsibility and reflecting decision-making	4.86
Efficiency of the BOD operation (4.83points)	Frequency and regularity of BOD meetings	4.86
	Adequacy of the composition of the board of directors	4.86
	Fidelity of materials provided by the Board of Directors	4.86
	Fidelity in the preparation and implementation of the rules for the operation of the board of directors	4.86
	Adequacy of training and support for new directors	4.71
Subcommittees under the BOD (4.81points)	Expertise in Committee Composition and Proportion of Outside Directors	4.86
	Appropriateness of committee operation method	4.86
	External expert support for the committee	4.71

※ Mutual evaluation of outside directors (out of 5) is not disclosed because there is a risk of impairing objectivity.



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Independence and specialty of Board of Directors

Independence

In order to ensure that external directors keep the management in check, KT&G takes 'independence' as the core pillar of their operation. By stipulating in Board of Directors regulations that 'chair of Board of Directors shall be appointed from external directors by Board of Directors' resolution', we established the objective and independent governance which separates CEO from chair of Board of Directors. The ratio of external directors, at 75%, is the highest for domestic businesses. Sub-committees under Board of Directors (except for Management Committee) have external directors who hold the majority. Audit Committee and Evaluation Committee, in particular, fully comprise external directors, keeping the management in check.

External directors, recommended by outside search firms and appointed by External Director Candidate Recommendation Committee at the shareholders' meeting, undergo double-screening from the appoint stage for the independence standards through both internal and external verification. The 'external director qualification certificate' is checked with the candidates themselves before shareholders' meeting in a bid to appoint directors who are free of critical interest with the company.

Education date	Target	Attendee	Content
2020.01.16	Governance Committee members	Song, Up-kyo, Youn, Hai-su, Lee, Eun-kyung, Baek, Jong-soo	Corporate governance
2020.04.06	New non-executive director	Kim, Myuung-chul	Understanding of KT&G
2020.04.07	New non-executive director	Koh, Yun-sung	Understanding of KT&G
2020.05.26	New non-executive director	Kim, Myuung-chul, Koh, Yun-sung	Status of Sintanjin Plant (KT&G) and Korea Ginseng Plant (KGC)
2020.05.27	New non-executive director	Kim, Myuung-chul, Koh, Yun-sung	Domestic tobacco market
2020.06.25	-	All directors	Business environment changes and growth strategy
2020.09.22	-	All directors	Growth engines in the next decade based on big data
2021.03.22	New non-executive director	Lim, Min-kyu	Understanding of KT&G

Expertise of Board of Directors

KT&G's Board of Directors possess practical experiences in management, finance, accounting, global, law, and ESG management. Their expertise is not confined to a specific background or field, thus ensuring that they are able to provide professional advice and make well-informed decisions regarding critical matters for the company from different perspectives. This structure ensures that the management is kept in check by external directors.

Teams dedicated to assisting external directors provide both human and physical support so that they can acquire knowledge and skills necessary to perform their duties and to enhance specialty. They also run field visit program to help newly appointed external directors to become familiar with the company in general. Also by hosting various training programs, they help Board of Directors make the best-possible decision for the company.

Audit Committee

Audit Committee consists of external directors in the entirety to ensure objectivity in duty implementation. Article 3 of the operation regulations of Audit Committee stipulates that one or more accounting or finance experts be included. However, Audit Committee has two accounting or finance experts of the four committee members, which exceeds the requirement by Commercial Act and internal regulations. Audit Committee also operates audit team under its direct supervision as an internal audit organization. Audit Committee consists of CPA and other members with diverse backgrounds such as sales, marketing, manufacturing, procurement, and ICT. They conduct audit in accordance with the yearly audit schedule and report to Audit Committee on a quarterly basis.

Audit Committee is convened on a quarterly basis in accordance with the Article 8 of the operation regulations thereof and can be held if deemed necessary by Chair. A total of 11 Audit Committee was convened in 2020, discussing agenda such as shareholders' meeting agenda review, internal accounting management system, business plan for Audit Committee, result of internal audit, and matters regarding external auditors.

Audit Committee

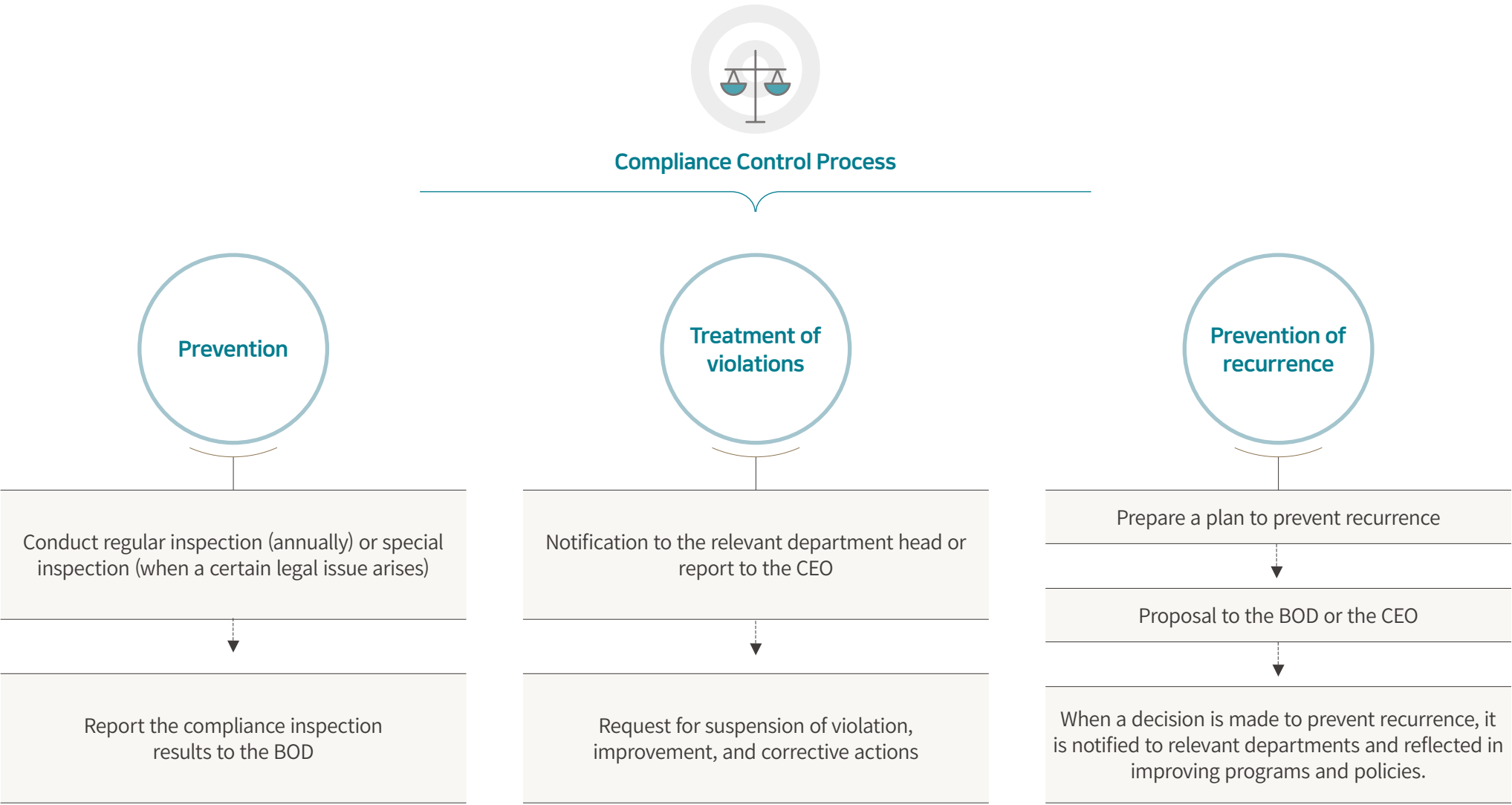
Position	Non-ex-ecutive	Name	Career and qualification	Field
Chairper-son	○	Koh, Yun-sung	• Professor in Busines Administration (Accounting), Hankuk University of Foreign Studies (Mar. 2010~present) • Ph.D. in Business Administration (Accounting), Yonsei University (Feb. 2007) • Director, Korean Accounting Society and Korea Tax Association (Jan. 2010~present)	Accounting, finance
Member	○	Lee, Eun	• Senior executive director in finance and operation, PVH Korea Calvin Klein (Jul. 2012~present)	-
Member	○	Baek, Jong-soo	• Lawyer, Dongjin Law Firm (Mar. 2015~present) • Tax legal advisor, Seoul Regional Tax Office (Nov. 2015~Oct. 2016) • Inspector, Busan District Prosecutor's Office (Dec. 2013~Feb. 2015)	-
Member	○	Kim, Myuung-chul	• CFO, Shinhan Financial Group (Jul. 2007~Sep.2008) • Finance Director, Shinhan Bank (Mar. 2005~Mar. 2006) • Foreign Currency Team Head, Shinhan Bank (Jul. 1993~Feb. 1998)	Financial institution

# BUSINESS ETHICS AND COMPLIANCE



## Compliance Management

KT&G operates the Compliance Support Department, an organization dedicated to compliance management, and designated a compliance support manager to periodically check the compliance of employees and report the results to the Board of Directors. The compliance control standards established to secure the company's sound development and customer trust suggest the direction of various compliance activities, including compliance inspections serve as a guide for the company to conduct its business in a fair and transparent manner. Additionally, compliance training and legal information system for employees, which are being implemented to spread the internal compliance culture, and the establishment of ethical compliance evaluation indicators for all institutions greatly contribute to the improvement of individual risk management capabilities.



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Compliance inspection

KT&G conducts a compliance inspection according to the 'Commercial Act' and Standards for 'Compliance Control' to inspect and improve employees' compliance with laws. In 2019, we performed inspections on the employees of the relevant institutions at the headquarters regarding brand advertising, fairness in hiring, and subcontracting. In 2020, the compliance inspection was conducted on all employees at the headquarters on the ethical awareness, working conditions, contracting, subcontracting, resolution of the board of directors, and marketing and brand advertisements.

The compliance inspection in 2020 was conducted as a means of autonomous inspection by employees using a checklist for each inspection area achieving an average of 97.3% participation. From 2021, we plan to use the online compliance system to expand the scope of compliance inspections to company-wide employees.

Meanwhile, KT&G also conducts 'effectiveness evaluation' to identify and improve employees' compliance with laws according to the 'Enforcement Decree of Commercial Law' and 'KT&G Compliance Control Standards.' In 2020, we were well received in the regular compliance inspection that our support and inspection system of compliance is operated effectively and adequately.

Establishing compliance guidelines

KT&G runs an employee voluntary compliance system as part of its compliance activities. In 2019, our headquarters established the 'Compliance Guidelines' to allow our employees to self-check legal risks in work and abide by related laws. In 2020, updates were shared with our employees according to the amended laws. The 'Compliance Guideline' categorizes the legal risks that require attention by each headquarters and presents relevant laws and company rules and precautions in the course of business, which our employees utilize in determining compliance risks in the course of their work. We plan to introduce compliance guidelines on a trial basis for specific topics that require follow-up management and publish a 'guidebook for each topic' for efficient allocation of employees and application of work.

Spreading a culture of compliance

KT&G plans to conduct compliance training in consideration of duties and positions to reinforce compliance awareness among employees. In 2020, we conducted 25 regular compliance training sessions following the compliance control standards, compliance training for recruitment, and special compliance training. Regular compliance training for all executives and employees improved their understanding of compliance management and compliance control standards. In contrast, the special compliance training for working-level employees focused on learning fundamental laws closely related to work, such as the Subcontracting Law and the Anti Graft Law. We also emphasized the importance of ethical management, compliance, and risk management in training new employees, executives, and managers.

KT&G operates an online portal site, 'Legal Information System,' to effectively prevent legal risks that may arise in the course of business. This system is easily accessible from the in-house portal, enabling the employees to utilize work-related services such as legal advice and contract review and obtain legal information, including company regulations and legal policy trends. In 2020, the Legal Information System completed a legal review of 6,781 business-related contracts and 216 advisory cases and utilized 24 standard contracts by enacting and revising 12 standard contracts.

In addition, we newly established 'Work Cooperation Degree of Ethics and Compliance' as a common indicator in the performance evaluation of our organizations, contributing to raising the awareness of ethics and compliance among employees and helping them manage compliance risks on their own.

Compliance training in 2020

Classifica- tion	Target	Content
Regular (6 times)	All employees	• Improve awareness of the disabled • Sexual harassment prevention • Privacy protection • Retirement pension • Workplace bullying prevention • Understanding of compliance control criteria
Recruitment (4 times)	New employees (level 6)	• Ethics management sexual harassment prevention • Understanding of tobacco business
	Experienced employees (level 8)	• Understanding of tobacco business
Special (15 times)	New executive directors	• Understanding of ethics management
	New managers	• Understanding of anti-graft law • Understanding of business-related laws
	New employees (level 6 & 10)*	• Understanding of anti-graft law • Understanding of ethics management
	Military veterans	• Understanding of tobacco business
	All managers	• Legal contract and operation • Fair trade with partners • Legal marketing and advertising • Desirable employee ethics
	Employees of Raw Material HQ	• Special training on Subcontract Act

\*New employees in December 2019

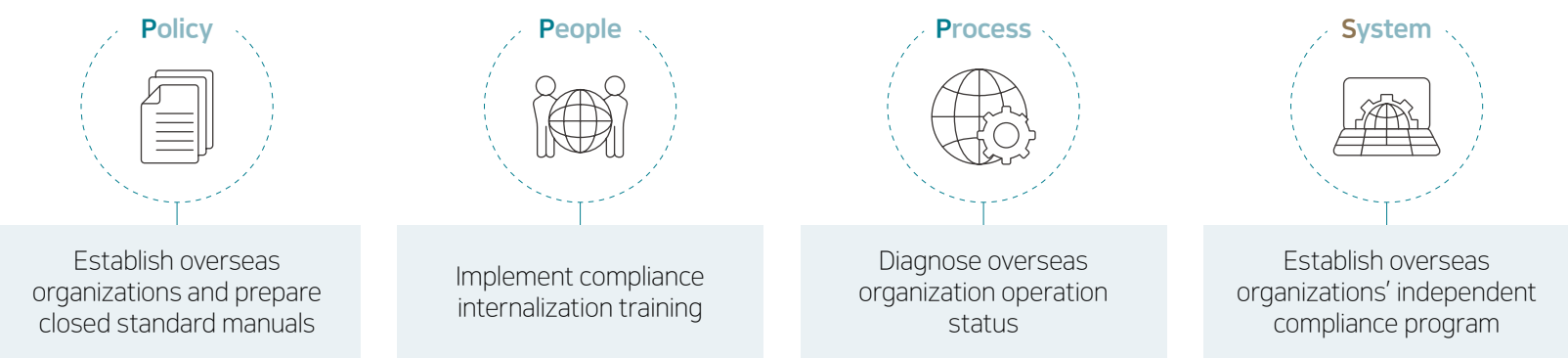


Global Compliance

3P1S framework

As more weights are given to global business every year, KT&G is strengthening its compliance management to comply with the laws of the respective countries. Based on the 3P1S framework designed to advance global compliance capabilities from the perspective of policy, people, process, and system, KT&G seeks to manage legal risks preemptively.

Global compliance 3P1S framework



Each overseas subsidiary enacts company rules that conform to the laws of the host country based on 3P1S and operates a compliance program to comply for this purpose. Notably, it established a GIP (Global Information Portal) and legal information sharing platform and appointed a compliance officer for each branch, playing the role of bridging compliance management communication between the headquarters and overseas subsidiaries.

In 2020, while enhancing our compliance management capabilities by establishing a compliance operation process from a ‘3P1S’ perspective and operating a prevention-responding to issues-recurrence prevention program, we unified the regulatory information investigation process and established a compliance management monitoring system.

Global compliance results in 2020

Performance	Details
Stabilization of compliance program operation	• Establishment of compliance operation process from a 3P1S perspective • Prevention, issue response, and recurrence prevention programs
Unification of regulatory information investigation process	• Establishment of task and process when new market development issues arise • Discovery of local law firms and direct consulting after preemptive investigation of countries to be pioneered (82 countries)
Establishment of compliance management monitoring system	• Opened a legal information sharing platform (GIP) between Global CIC and overseas subsidiaries • Implementation of data visualization (Dashboard) within the platform
Timely response to overseas legal issues	• Legal advice on establishment, operation, and liquidation of overseas corporations/offices, etc.

Meanwhile, the Global Information Platform (GIP), established in 2019 with the purpose to share legal information between the headquarters and overseas subsidiaries and separately manage global legal risks, consists of legal advice, contract management, regulations and guidelines, and market monitoring menus, and is also actively used as a legal advisory channel between business departments and the global compliance team. In 2020, GIP reviewed 565 contracts and 70 advisory cases related to global business, apart from the existing legal information system.

GIP system menus

Top menu	Legal advice	Contract management	Regulation & guideline	Country monitor
Sub menu	Legal Advice Case Request	Review Confirm Registration	Regulation Guideline Work Manual	Laws by Country Market Data

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Global compliance training and consulting

Our overseas subsidiaries conduct regular compliance training as part of legal risk prevention activities. In 2020, we conducted 52 training sessions to cope with each country's rapidly changing laws and business-related regulatory environment. In July 2020, the compliance officer of the subsidiaries located in Turkey, Indonesia, and Russia was responsible for examining each corporation's annual HSE plan and the status of using the checklist, daily inspection history, monthly report, and accident management, conducting regular training, and operating the HSE committee organization, and regarded 'insufficient matters' as matters that require improvements in the future.

Global compliance training in 2020



Compliance check and monitoring

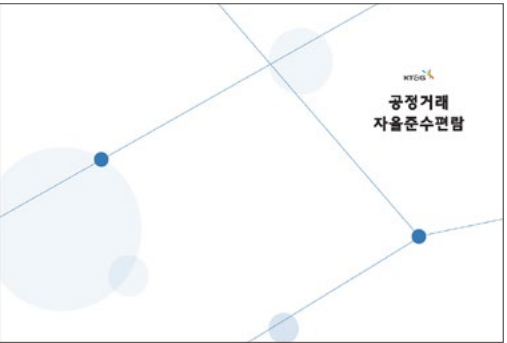
KT&G regularly monitors the status of compliance management performed by overseas subsidiaries through the Compliance Monthly Report prepared by the overseas subsidiaries. Accordingly, we are putting every effort into preventing accidents in advance and sharing activities between overseas subsidiaries to prevent recurrence of the same and similar incidents. Besides, we are conducting activities to prevent violations of local laws and company regulations by frequently examining the overall business status, such as HR, HSE, and compliance of overseas subsidiaries.

Fairtrade and competition

KT&G executes the Fair Trade Compliance Program (CP) based on the 'Operation Guidelines for KT&G Fair Trade Compliance Program' enacted in 2002, and compliance officers appointed by the board of directors are responsible for the self-compliance manager, who oversees the CP operation.

In 2020, we revised the 'Operation Guidelines of KT&G Fair Trade Compliance Program to activate CP, reflecting the revised matters relevant to the regulations of the Fair Trade Commission and the Korea Fair Trade Mediation Agency.' Furthermore, we reflected amendments to the 'Fair Trade Act' and the 'Subcontracting Act' in the 'Voluntary Compliance Manual of Fair Trade' and published E-BOOKs to enhance the accessibility and utilization of employees.

Fair trade voluntary compliance e-book



By providing a checklist to executives and employees in work fields with high compliance risk with the Fair Trade Act due to the characteristics of their work, we enable them to discover risk factors voluntarily and provide professional legal advice when necessary. We provided special training on the subcontracting law and legal information essential for practice for executives and employees in charge of subcontract transactions and a revised version of 'Easy to understand sales-related laws and regulations, including behavioral guidelines for sales employees.

KT&G values customer satisfaction as the top priority in business activities. We endeavor to provide customers with the necessary information to make rational product choices accurately and actively listen to customers' opinions through various channels. You may view our fair trade principles and standards of conduct for customers on the 「Charter of Ethics」 (Chapter 3 Ethics for Customers) and Responsible Marketing Policy (Protecting Consumer Rights).

## Ethical management

[Charter of Ethics](#)

[Code of Ethics](#)

KT&G has established the ‘Ethics Charter’ and ‘Ethical Regulations’ as the standards for judging correct behavior and value that all employees must comply with and is promoting various activities based on the ethical awareness of its employees. The Compliance Support Department was designated as our ethical management control tower, and employees were asked to self-check their ethical awareness and submitted a pledge of ethical practice. Our other ethical management activities include an ethical practice campaign (Think Twice), ethics training, stakeholder survey, and operating channels for reporting unethical behavior.

### Ethical management system

KT&G is devoted to preventing unethical behaviors that may occur in all business activities and spreading an ethical management culture. We ask our employees to self-check their ethical awareness to improve weaknesses. Upon the matter's findings that require further action, we consult with the relevant department to solve the issue. Besides, we established ethical regulations applicable to our overseas workplaces and developed and distributed ethical guidelines and manuals for local employees.

### Organization of ethical management

In 2019, the Compliance Support Department was established under the Sustainability Management Headquarters to establish ethical beliefs for employees. The Compliance Support Department, serving as a bridgehead for establishing an ethical and compliance culture and creating performance, strives to preserve sustainable corporate values.



### Ethical management activities

All executives and employees are committed to becoming familiar with the Code of Ethics and participating in the ethical management pursued by the company by writing an ‘ethical pledge’ every year. We provide ethical management training for new employees, executives, and managers on topics of preventing sexual harassment, workplace harassment, and corruption. Compliant to the ‘Ethics Regulations,’ we ask our employees to conduct a self-check of their ethical awareness annually to check the status compliance with ethical management and run an ethical campaign named ‘Think Twice’ to prevent incidents and enhance ethical awareness.

With a goal of spreading the ethical management culture throughout KT&G’s value chain, we ask our partners to sign the ‘Special Terms of Ethics Practice’ at the time of signing a contract and monitor fair trade and unethical behavior of our employees via stakeholder surveys.

### KT&G ethics management activities



### Reporting system of unethical behavior

KT&G operates a system for reporting unethical behavior to settle our ethical management. Our stakeholders, including employees and partners, may use the 'Reporting Unethical Behavior' channel on the KT&G website at any time, anywhere. It can be reported under a real name or anonymously, as the reporter’s identity is protected under our ‘Guidelines for the Protection of Reporters of Unethical Behaviors.’

### Process for handling unethical behavior

Examples of unethical behaviors subject to reporting are defined as bribery, solicitation for a job position, fraudulent acts, sexual harassment and harassment in the workplace, acts of power abuse, and conspiracy. The reporter who recognizes the unethical action shall submit the case through the reporting channel on our website, and KT&G determines whether to proceed with the investigation considering the details of the report. In case the unethical behavior is found to be true, legal action will be taken against the relevant employee by a judicial authority, or orders for improvement will be given. The reporter will be provided with compensation according to the applicable regulations. After dealing with the case, all our employees will be trained and monitored to prevent the recurrence.

### Unethical behavior handling process



### Status of reporting unethical behavior

In 2020, 124 cases were reported through the ‘Report of Unethical Behavior’ channel. Depending on the report details, it was handled by ordering improvement measures or transferring to business organizations. If necessary, follow-up management was carried out, such as devising measures to prevent a recurrence. As a result of our global expansion, we opened an English version of the report page in 2020 to improve the accessibility of the 'Reporting Unethical Behavior' channel, which enabled us to receive reports from stakeholders, including consumers worldwide. In the future, we will continue to strive to activate the reporting system by disclosing the 'Guidelines for the Protection of Reporters of Unethical Behavior' and upgrading the system for the convenience of reporters.

### Reception of unethical behavior cases in 2020

(Unit: case)



Consumer complaints	68
Unethical behaviors	6
Others	50



Transparent Disclosure

Tax policy

KT&G pays taxes by interpreting the tax law from a conservative point of view pursuant to the management philosophy of 'an upright company' and does not transfer income to low-tax countries for the purpose of tax evasion. Our domestic and overseas subsidiaries also abide by the laws of each country in which they operate, following the parent company's policies and faithfully fulfill their tax obligations. To this end, we manage a transparent taxation and accounting system and faithfully submit legal evidence upon the request of data from the tax authorities. Besides, all our executives and employees responsible for tax affairs conform to tax laws following KT&G's tax policy and maintain a transparent relationship with the tax authorities.

All internal and external transactions of the company are handled under the Korea International Financial Reporting Standards (K-IFRS). Especially, transactions with overseas subsidiaries are carried out within the normal price range according to the transfer pricing policy. Corporate tax is calculated and paid based on the above principles and tax laws, whereas other taxes are on the basis of accounting standards and related tax laws.

Tax risk management activities

Tax risk is managed at the company level and the operational level. At the company level, KT&G interprets the tax law from a conservative point of view based on the spirit of compliance, calculates and pays related taxes, and informs subsidiaries within the group of these principles. At the operational level, each department within the company consults with the finance department in advance for new or high-value transactions to review compliance with accounting standards and tax laws. Hence, we report and pay corporate tax by adjusting the income and expenses according to K-IFRS and the corporate tax regulations. At this time, the data that serves as the basis for calculating the corporate tax are linked to the company's computer system to ensure the reliability of the information. Temporary monetary differences that arise during tax adjustment are recorded and managed transparently. We also manage taxes other than corporate tax, i.e., value-added tax, similarly to corporate tax, and report and pay according to the tax laws.

Tax risk assessment process

An external tax expert (accounting firm) verifies our compliance with the corporate tax law, and all subsidiaries within the group receive expert advice to calculate, report, and pay corporate tax. External tax experts are selected from a pool of experts above a certain level in the region and country, and the expert information is shared and managed within the company. The major accounting process, which is the basis for calculating corporate tax, is carried out in advance following the advice of external experts.

Honest taxpayer

In 2020, our consolidated pre-tax profit was KRW 1.61 trillion when the nominal tax amounted to KRW 426.7 billion, recording a nominal tax rate of 26.47%. Meanwhile, the net tax amounted to KRW 440.5 billion, recording a net tax rate of 27.32%. The average nominal tax rate for the past two years is 26.51%, and the average net tax rate is 28.15%, of which the net tax rate is higher by 1.64%p. Such difference appeared to have been attributed to the effects of non-taxable income and non-deductible expenses, changes in the unrecognized amount of deferred income tax for temporary differences, and tax credits and reductions.

Tax and tax rate from 2019 to 2020 on a consolidated basis  
(Unit: KRW 100 million)

Classification	2019	2020	Average
Profit before tax	14,602	16,121	-
Nominal tax amount	3,878	4,267	-
Nominal tax rate	26.56%	26.47%	26.51%
Real tax amount	4,230	4,405	-
Real tax rate	28.97%	27.32%	28.15%

Sales and corporate tax of consolidated subsidiaries from 2018 to 2020  
(Unit: KRW 100 million)

Classifica- tion	Region	2018	2019	2020	Remark
Sales by region	Korea	42,998	47,300	51,306	Aggre- gation of financial statements by con- solidated subsidiaries
	Russia	868	794	772	
	Indonesia	2,034	2,609	1,951	
	Turkey	79	128	185	
	Others	2,338	2,890	3,941	
	Total	48,317	53,721	58,155	
Corporate tax by region	Korea	3,515	3,903	4,288	
	Russia	(9)	14	22	
	Indonesia	71	89	(20)	
	Turkey	0	0	0	
	Others	6	15	20	
	Total	3,583	4,021	4,310	

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# RISK MANAGEMENT

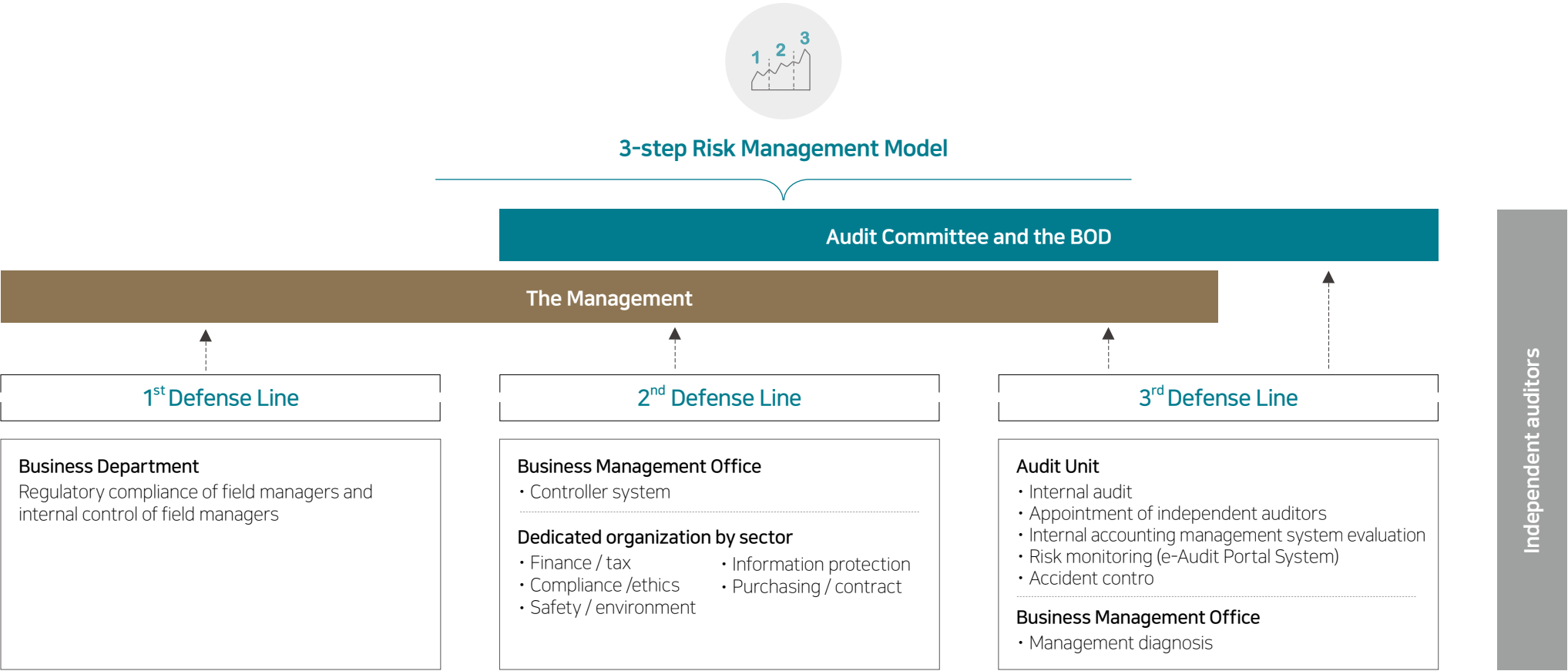
## Risk management system

KT&G operates committees and dedicated departments to identify and preemptively prevent potential risks. The Audit Committee, comprising of only non-executive directors, monitors our risk management status, and the Business Management Office, Compliance Department, and Internal Accounting Department examine and manage risks related to management, legal, and accounting affairs in advance. For more effective risk management, KT&G has devised the “Risk Management 3 Lines of Defense Model” to integrate our risk management organizations and processes.

The first line of defense, the Business Department, abides by business-related regulations and guidelines to avoid on-site risks, whereas business managers conduct periodic risk inspections and management activities.

The second line of defense, the Business Management Office, is our risk management control tower in charge of the controller system, standardizing business management tasks and analyzing/managing risks affecting the decision-making process. Dedicated organizations for each field, such as compliance, information protection, and occupational health and safety, are taking charge of managing these risks.

The 3rd line of defense, the Audit Team, is an independent organization directly under the Audit Committee responsible for verifying the adequacy of risk management and internal control of the 1st and 2nd lines of defense through internal audits and regular monitoring. Also, the Management Office prevents potential risks by identifying our management strategies and directions from a mid-to-long-term perspective.



Countermeasures for each risk factor

KT&G faces financial and non-financial risk factors throughout its business activities. Financial risks include information disclosure, taxation, and foreign exchange risks. In contrast, non-financial risks may arise from issues related to strategy, reputation, corruption, human resources, laws and regulations, information protection, etc., and processor system errors occurring in the course of operating the organization. We are eager to prevent adverse impacts on business activities by preparing the best countermeasures for various risk factors.

Financial risk factors and countermeasures

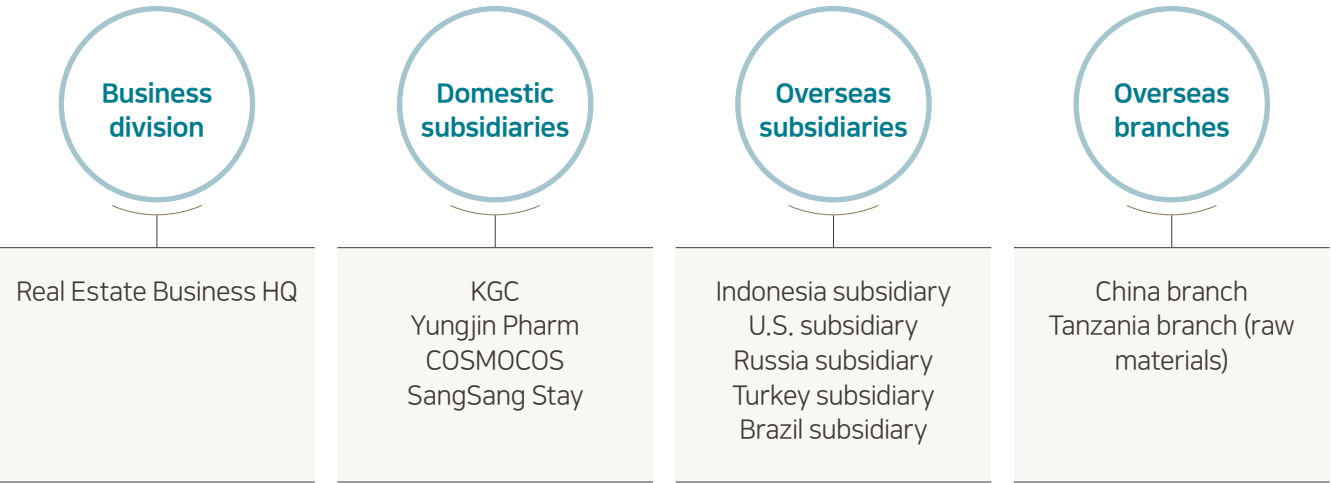
Classifi- cation	Risk	Cause	Countermeasures
Financial	Financial report	Transparency and reliability of financial reporting	<ul style="list-style-type: none"><li>• Controller system operation</li><li>• 24/7 monitoring of accounting and regulatory trends</li><li>• Quarterly evaluation of internal accounting control system and improvement actions</li></ul>
	Tax	Corporate tax and regional tax management	<ul style="list-style-type: none"><li>• Analyze target business through tax review and advice, and optimize tax return</li><li>• Prior review through operation of tax advisory service</li></ul>
	Foreign currency	Compliance with Foreign Exchange Transactions Act	<ul style="list-style-type: none"><li>• Improvement of foreign exchange risk management system</li><li>• Invitation training on the Foreign Exchange Transactions Act</li><li>• Weekly and monthly foreign exchange market trend analysis</li></ul>
Non-fi- nancial	Strategy & reputation	Corporate and brand trust and credibility	<ul style="list-style-type: none"><li>• Business management risk analysis and management to be considered in decision making</li></ul>
	Corruption	Tangible and intangible losses due to unethical behavior of employees	<ul style="list-style-type: none"><li>• Training on anti-corruption for employees, self-check on ethics, and stakeholder survey</li><li>• Whistleblower protection and compensation</li><li>• Risk monitoring through e-Audit Portal System, regular inspection on accidents and sharing result</li></ul>
	Law and regulation	Compliance with laws related to tobacco business, environment, and safety  Filing major business-related lawsuits	<ul style="list-style-type: none"><li>• Monitoring of major business-related legislative and government policy trends</li><li>• Publication of compliance guidelines on legal risks</li><li>• Compliance with relevant laws for the implementation of the FCTC Convention</li></ul>
	Information protection	Hacking, privacy leakage, etc.	<ul style="list-style-type: none"><li>• Information protection system operation, security, and monitoring</li></ul>
	Operation	Employees, business process, or system error	<ul style="list-style-type: none"><li>• Deriving and implementing improvement tasks through management diagnosis</li></ul>

Regular controller system

We established a controller system for domestic and overseas subsidiaries and branch offices in order to manage risk factors in the overall management and enhance the ability to execute business strategies. The Business Management Office, a general management department, serves to manage the controller system, analyze risks and opportunities arising from internal and external environmental changes, and facilitate three-dimensional risk analysis and management such as examining internal control, improving the process, and setting management points for each step of the value chain.

Our objectives of 2021 are to expand the controller system to business departments such as real estate and NGP, establish a master plan for enterprise risk management (ERM), lay the foundation for risk management such as policies, processes, and systems, and improve our employees’ capabilities of risk management through relevant training.

Risk management targets based on the controller system





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- Business Ethics and Compliance
- Risk Management
- Enhancement of Shareholder Value

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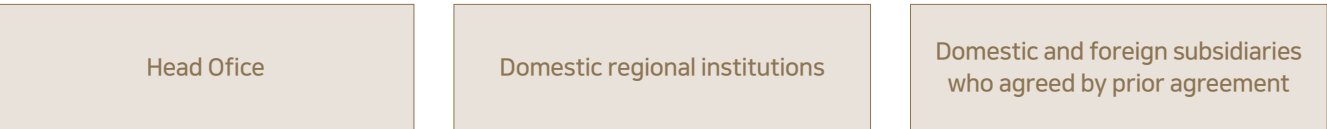
Regular management consulting

To prevent risks in advance, we provide management consulting for the headquarters, regional institutions, and domestic and overseas subsidiaries to identify improvement tasks and monitor the implementation process. In 2020, management consulting was conducted for major business divisions, including real estate and NGP and domestic subsidiaries, i.e., Tae-A Industry Co., Ltd. and Industries and COSMOCOS COSMETICS. Considering our overseas subsidiaries, we had to utilize the local workforce to perform consulting due to restricted on-site inspection caused by the COVID-19 pandemic.

Management diagnosis process



Regular management diagnosis target



Audit activities

The KT&G audit team prepared an audit pool for each major task of the company and conducted systematic internal audits by dividing them into preventive, theme, financial, and occasional audits to suit the required internal audit. Furthermore, the audit team evaluates the operation condition of the internal accounting management system twice a year (annual and interim evaluation) to verify the effectiveness of the design and operation of control activities and reports the results to the audit committee. Any deficiencies found in the evaluation process are improved in consultation with external auditors and dedicated departments. Forty-two risk items (15 in sales, 14 in production, 7 in finance, and 6 in purchasing) are monitored monthly. Upon the discovery of abnormal data, they request the relevant institution for clarification and take action to correct any deficiencies.

Audit activities

Classification	Audit themes
Preventive audit	<ul style="list-style-type: none"><li>Asset management status by institution</li><li>Internal Labor Welfare Fund related work process</li><li>Operation of purpose businesses</li></ul>
Theme-based audit	<ul style="list-style-type: none"><li>Budget implementation</li><li>Purchasing of advertising</li><li>Inventory disposal and miscellaneous loss treatment</li></ul>
Financial audit	<ul style="list-style-type: none"><li>Review of finance and accounting related data management process</li><li>Review of the adequacy of the consolidated closing process</li><li>Review of fixed asset management process</li></ul>
Frequent audit	<ul style="list-style-type: none"><li>Reception of unethical behaviors, etc.</li></ul>

e-Audit Portal System



# ENHANCEMENT OF SHAREHOLDER VALUE



KT&G stipulates matters to guarantee the rights of shareholders according to the standards set by the Commercial Act and related laws in the Articles of Incorporation, Corporate Governance Charter, other internal regulations. Notably, shareholders' rights and fair treatment are specified in the Corporate Governance Charter in detail to ensure that shareholders can exercise their rights smoothly. KT&G will continue to provide equal information to all shareholders, support shareholder participation in the company's essential decision-making processes, and enhance the long-term value of our shareholders, ensuring the fair exercise of voting rights and the right to receive an appropriate level of dividends.

## Protecting shareholders

KT&G actively adopts various systems to enhance the convenience of shareholders' voting rights in which shareholders' opinions can be reflected in the company's necessary decision-making process. KT&G participated in the distributed voluntary compliance program at the general meeting of shareholders to allow shareholders to directly participate in the general meeting and express their opinions if desired. Accordingly, the 33rd general meeting of shareholders in 2020 and the 34th general meeting of shareholders in 2021 were held on days other than the day of the general meeting of shareholders. In addition, we encourage our shareholders to exercise their voting rights in writing by proxy. From 2020, due to the prolonged COVID-19 situation, we implemented the electronic power of attorney system for the safety of shareholders and the ease of exercising voting rights. Accordingly, the average ratio of the number of shares attending the general meeting of shareholders in the past three years has reached about 80.2%.

KT&G is also making various efforts to protect the rights of minority shareholders. We assure shareholders' rights to ask questions and request explanations on the agenda at the general shareholders' meeting as specified in the 'Corporate Convenance Charter' and provide an opportunity to remark after sufficient explanation of each agenda. Thus, we will ensure that the objectives of the meeting are deliberated fairly and efficiently to achieve the purpose of the general meeting of shareholders. Furthermore, KT&G has adopted a shareholder proposal and cumulative voting system to ensure that minority shareholders can easily exercise their rights. For inquiries, the relevant department shall explain the related procedure in detail. In addition, as stipulated in Article 4 of the Board of Directors Regulations that 'Directors must comply with the code of ethics set by the board of directors, fulfill their duty of care as a good manager toward the company and shareholders, and strive for the best decision-making and business execution,' we ensure that the board of directors recognize the importance of protecting shareholder rights and interests in corporate management.

## Active shareholder return policy

KT&G has consistently raised/maintained its dividend per share and has been continuously paying dividends every year since its listing in 1999. Thanks to our solid foundation, the dividend per share have been raised every year for the past three years. In 2020, we paid KRW 4,800 per common share, a total dividend of KRW 595.6 billion, a 9.1% increase from the previous year to enhance shareholder value and ensure dividend stability. Furthermore, in August 2020, we acquired 2.5 million treasury shares (worth 212.8 billion won), equivalent to 1.8% of the total issued share, to stabilize share prices and enhance shareholder value. In November 2020, after discussion with the board of directors, we disclosed the shareholder return policy, which aims to achieve a dividend payout ratio of around 50%, via the electronic disclosure system of the Financial Supervisory Service and the Korea Exchange’s corporate disclosure channel. This was also announced at the company briefing held for the 3rd quarter of 2020 on the same day. We will continue to make every effort to respect the right of shareholders so as to receive more than an appropriate level of dividend by reviewing the introduction of a new shareholder-friendly policy in addition to the current dividend per share policy.

## Providing fair shareholder information

To ensure that all shareholders receive the company information fairly and equally, KT&G holds a company briefing session every quarter to announce its results and a company briefing session for the fourth quarter of every year to disclose the information on profit and loss on our website. Even our mid-to-long-term business plan is notified through the website in Korean and English. In addition to regular public notices, corporate information that arises from time to time is also disclosed in Korean and English through the public announcement channels of the Financial Supervisory Service and Korea Exchange.

Furthermore, in order to provide shareholders with sufficient and fair information in a timely manner under Article 15 of the Securities Market Disclosure, we disclose matters subject to public notice/announcement immediately upon occurrence. In 2020, we made five fair disclosures, including dividend plans.

IR Presentation



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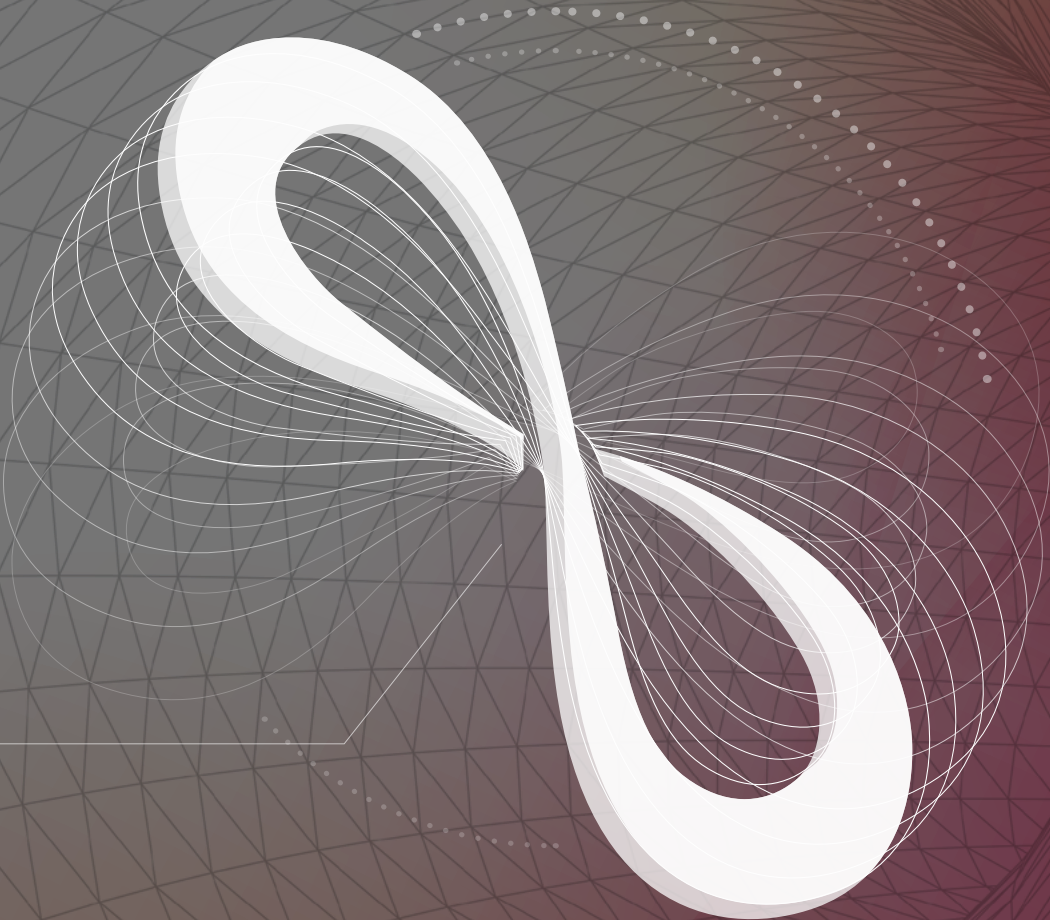
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# SUSTAINABILITY MANAGEMENT OF SUBSIDIARIES

KT&G is creating a sustainable future with its subsidiaries by creating synergies based on a balanced business portfolio. We aim to enhance the group's long-term corporate value and strengthen our business competitiveness by proactively managing our subsidiaries' sustainability management and minimizing risks.





# DIRECTION OF SUBSIDIARIES’ SUSTAINABILITY MANAGEMENT

## Our Approach

KT&G intends to enhance the group's long-term corporate value by proactively managing each subsidiary's sustainability and minimizing risks and to strengthen business competitiveness by improving ESG impact by identifying important ESG issues that fit the characteristics of each business portfolio. Moreover, by gradually expanding the group's ESG information disclosure, KT&G plans to effectively respond to external demands resulting from the increase in the importance of ESG information disclosure and to communicate transparently with stakeholders.

### Direction to Systemize Group’s Sustainability Management

Our subsidiaries reviewed priorities and management importance according to the size of sales within the KT&G group and whether they are subject to mandatory disclosure of ESG information in the future. KGC Ginseng Corporation, which operates the health functional food business, accounts for about 25% of the group's sales. It aims to contribute to global business growth and strengthening global competitiveness by establishing a systematic sustainability business strategy and managing strategic tasks.

#### Sustainability management promotion plan of the Group

Classification		Disclosure of quantitative data			Systemization and reporting		
		2019 Report	2020 Report	Plan	2019 Report	2020 Report	Plan
KT&G	Domestic sites	●	●	●	●	●	●
	Overseas sites		●	●		●	●
KGC	Domestic sites		●	●		●	●
	Overseas sites			●			●
Yungjin Pharm	Domestic sites		●	●			●
COSMOCOS				●			●

\* KRX released the ESG information disclosure guidance in January 2021.

### Scope of Subsidiary ESG Information Disclosure in 2020 KT&G Report

In accordance with the systemization of the group's sustainability management, this report preferentially disclosed partial quantitative data, including environmental data for KGC Ginseng Corporation and Youngjin Pharm.

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In addition, to identify important ESG issues according to industry characteristics for KGC Ginseng Corporation, we reviewed the processed food industry standard based on the Materiality Map of the SASB (Sustainability Accounting Standards Board), and we reported some performance in food safety, product eco-friendliness, and water and energy management. In the future, we will expand the scope of data disclosure by reinforcing ESG data management capability for each subsidiary and collaborating with related departments. We also seek to expand the content of the group’s report according to global initiative guidelines such as SASB and TCFB by more systematically defining the areas that create sustainable management value in connection with business activities.

#### ESG issues of KGC

Classification	ESG issue	Reporting issue	Reporting target
SASB_ reporting standards for processed food business	Product quality & safety	① Sustainable materials procurement	●
		② Food quality management	●
	Product design & lifecycle management	③ Eco-friendly product management	●
	Water & wastewater management	④ Water management	●
	Energy management	⑤ Energy management	●
	Selling practices & product labeling	⑥ Health and nutrition, GMO label	-
	Supply chain management	⑦ Code of conduct in the supply chain and fair trade	-

FOOD SAFETY

SASB Code: FB-PF-250a.1, 2, 3, 4

Sustainable Ingredient Sourcing

Raw Ingredient Sourcing Process

Health functional foods manufactured by KGC use ginseng as the main raw material and herbal medicines (antler, angelica, peony) as auxiliary raw materials. To realize the purchase of safe and environmentally friendly raw materials, we procure government-certified products for all domestic herbal medicine raw material and agricultural products.

By always having our children’s safety as our priority, KGC procures only verified raw ingredients through 100% contract cultivation with raw ingredients farms and direct management of the cultivation process and pursues shared growth by supporting contract farmers to produce high-quality raw ingredients.

KGC procures high-quality raw ingredients from the world's best producers by item. For red ginseng it procures only 6-year-old domestically grown fresh ginseng through 100% contract production and direct management of cultivation process with farms across the country, and we pursue shared growth by supporting contract farms to produce high-quality raw ingredients. In addition, we procure herbal medicines and agricultural products from excellent domestic production areas, and we procure them from excellent production areas abroad if they cannot be produced domestically or has poor quality.

Also, to secure product safety against physical, chemical, and biological hazards and the use of GMOs, we verify the entire process 2-5 times from the pre-cultivation to the purchasing stages, procuring only suitable raw ingredients through this.

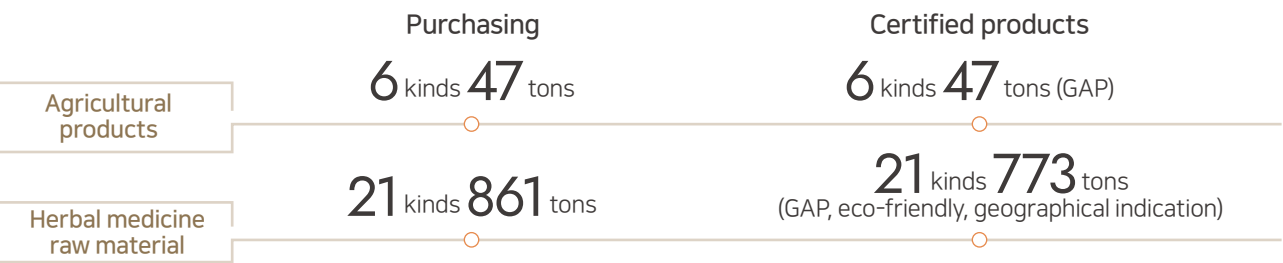
Hazardous factor control by stage

Type		WHO recommended management elements	Responsible department	Activities
Physical	Heavy metals	Lead, cadmium, mercury, chromium	Raw materials, quality	Equipment inspection when purchasing and processing
	Foreign substances	Soil, metal, feces, parasites, etc.	Raw materials, manufacturing	Management when harvesting, purchasing, manufacturing
Chemical	Pesticide residue	Organic chlorine-based ingredients, etc.	Raw materials, quality	Product inspection before purchasing
	Organic solvent	benzene, acetone, etc.	Quality	Inspection in manufacturing process
	Processed products	Benzopyrene, sulfur dioxide	Raw materials, manufacturing	Product inspection before purchasing
Biological	Mycotoxin	Aflatoxin, oclatoxin	Raw materials	Inspection in materials process
	Mold	All fungus	Raw materials	Visual inspection when harvesting and purchasing
	Germ	Salmonella, etc.	Manufacturing, quality	Inspection in manufacturing and product stage
Others	GMO	Whether genetically modified	Raw materials	Monitoring of variety approval

Quality Certification Status

Recognizing that the use of safe raw ingredients is a must for safe production, KGC conducts its own raw ingredient safety assessment from the soil stage before planting to the purchase stage in stricter standards than the government's Good Agricultural Practices (GAP). For herbal medicines, we acquire government certifications (GAP, eco-friendly, geographical indication, low-carbon production) for all of them, adding trust to the safety management of our own raw ingredients.

Purchasing certified raw materials



Comparison of ginseng-related GAP and KGC quality control standards

Management item		GAP	KGC
Management period		3 years (4-year-old ~ purchasing fresh ginseng)	7~8 years (farmland ~ purchasing fresh ginseng)
Management unit		By lot	By ginseng field
System		GAP management system	Cultivation management system
Tracking		Annual inspection	Quarterly inspection
Hazardous factor contrl	Pesticide residue	Government standard	Less than 70% of government standard
	Water quality	Agricultural water	Rainfall
	Heavy metals	Less than 100% of government standard	Less than 70% of government standard
	Chemical fertilizer	Prohibited to use for ginseng	Entirely prohibited to use
Environment and worker protection		Clean / protective equipment	Clean / protective equipment

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## Direction of Subsidiaries' Sustainability Management

→ Food Safety

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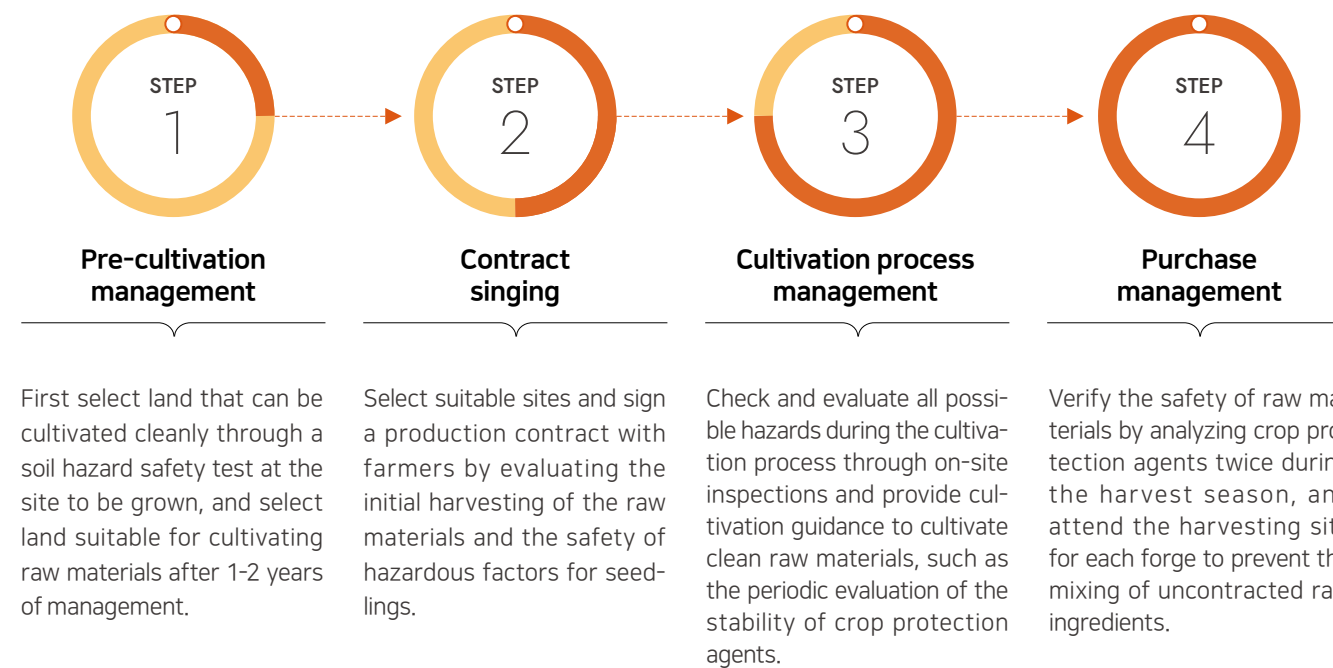
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## Stable Procurement Management

The health functional food ingredients manufactured by KGC have agricultural production variability and long-term lead times (1 to 3 years for crude medicines, seven years for ginseng). To respond to such uncertainties, KGC regularly controls supply and demand to predict mid-to-long-term ingredient demand and secure adequate inventory (1.3-1.6 years). For contract farms located at the top of the value chain, KGC provides interest-free support for cultivation management fees, purchases the entire volume of produces, and provides training for cultivation technology to improve farmers' competitiveness, actively realizing win-win management. Moreover, we thoroughly manage raw fresh ginseng in each stage of land selection, contract signing, cultivation process, and purchase before cultivation to ensure stable procurement.

## Raw Fresh Ginseng Management Process



## Food Quality Control

## Food Quality Control System

KGC provides only safe and excellent products by operating a 'Preventive Food Quality Control System.' By operating a quality safety information system based on Robotic Process Automation (RPA), it constantly collects domestic and foreign food safety and quality information and reviews and evaluates the impact on KGC business. If necessary, KGC's relevant sector responds immediately to identify and prevent possible hazards in advance and continuously manages risk factors by reflecting key information in business or standards for each sector.

### KGC's food quality management process





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Additive hazard management

Food additives purchased from external manufacturers are subject to preliminary quality and food safety evaluation, and only manufacturers that satisfy our standards are finally selected. For consumer safety, KGC uses only safe raw materials by managing chemical, biological, and physical hazardous ingredients as well as the usage standards of all food additives that have not yet been legally established.

Manufacturing process control

Through trial and initial production, KGC identifies risks such as food poisoning, bacteria, foreign substances, and quality deterioration that may occur in the manufacturing process, controls relevant hazards, and operates process conditions as well as quality assurance equipment to realize optimal quality. KGC monitors in real-time all major processes for risk factor control and quality assurance, and through this, it secures the safety and quality of food manufactured by KGC.

Inpection on warehousing, processing, and outgoing stages

According to the specification, all raw and subsidiary materials, including worker hygiene products, manufacturing water, air, fuel, etc., are subject to inspection from the warehousing stage. Process conditions and quality of processed products are analyzed for each manufacturer in the food manufacturing process that uses raw ingredients. We also analyze the quality of the finished products produced through rigorous management according to specifications before shipment to ensure that only products that satisfy food safety and quality standards are shipped.

Follow-up management

Separate from the manufacturing process, we perform inspection-analysis-verification on raw ingredients, suppliers, and manufacturing processes and implement regular quality assurance procedures. Consumers’ complaints and suggestions are raised after product sales are received through our expert counselors, and all VOCs (Voice of Customers) are managed in the IT system. The accumulated database is used carefully to improve KGC’s food safety and quality in the future and to prevent the same VOC from reoccurring, we establish and implement a thorough improvement plan and communicate the results to the consumers in a transparent manner. If hazardous elements are found in shipped food or used raw and supplementary materials, we promptly recall the products from the market. To minimize consumer damage. We master the product withdrawal and recall procedures and verify effectiveness regularly.

Compliance and Certification

Recognized as an internationally accredited testing institute for analysis of crop protection agents along with heavy metals, general food ingredients, and microorganisms in 2010, KGC complies with the Food Safety Modernization Act (FSMA, Food Safety Modernization Act) of the US Food and Drug Administration. Moreover, KGC guarantees that it meets the global food safety requirements throughout the entire manufacturing process by having acquired objective quality certifications trusted by various consumers, such as the Food Safety Management System (FSSC22000), Halal and Kosher, etc.

Legal compliance and certification

Classification		Content
Law	Domestic food safety regulation	Satisfied upgraded standard for pesticide residue in agricultural products
	U.S. FDA FSMA	Satisfied food safety risk control and validation procedures
Certification	FSSC22000 of GFSI	Satisfied global food safety requirements in entire supply chain
	Halal, Kosher	Satisfied quality certification standards set by Islamic and Jewish cultures

Agricultural products

KGC has strengthened the pesticide residue tolerance standards for agricultural products compared to the government standards (Strengthened 23%, same 77% based on Reinforced Management of Ginseng Crop Supplementation System 20210625\_2019. No. 31). For ginseng, we guarantee safety through up to 430 inspections over seven times from the planned soil to the final product.

Processed food

For processed food, we fundamentally comply with the Food Sanitation Act and the Health Functional Foods Act. When a product is designed and issued as a standard within the specification limits allowed by the specifications document attached to each law, KGC Plant manufactures the product based on it and meets the regulations by complying with HACCP and dry GMP at the time of manufacturing.

Compliance with Food Safety Cooperation Act (FSMA)

The Food Safety Modernization Act (FSMA) is a law enacted in the United States to prevent and respond to food safety-related incidents and accidents in advance. As a global export company, KGC regularly establishes and operates food safety plans to meet the requirements of relevant laws and to manage food safety preemptively and preventively.

In addition, the key employees engaged in food safety management at KGC are PCQI (Preventive Management Qualified) personnel who have completed relevant professional training, are qualified and skilled, and are assigned in the right place at the right time to dedicate themselves fully to safety management tasks. Based on quality management systems such as GMP and HACCP, we additionally operate food defense and fraud prevention programs to monitor and evaluate the human/physical environment at any time to prevent any possible artificial and intentional contamination at the source.



Halal certification of Wonju Plant



FSSC22000 certification of Buyeo Plant

ECO-FRIENDLINESS OF PRODUCTS

SASB Code: FB-PF-410a.2

Eco-friendly Product Strategy

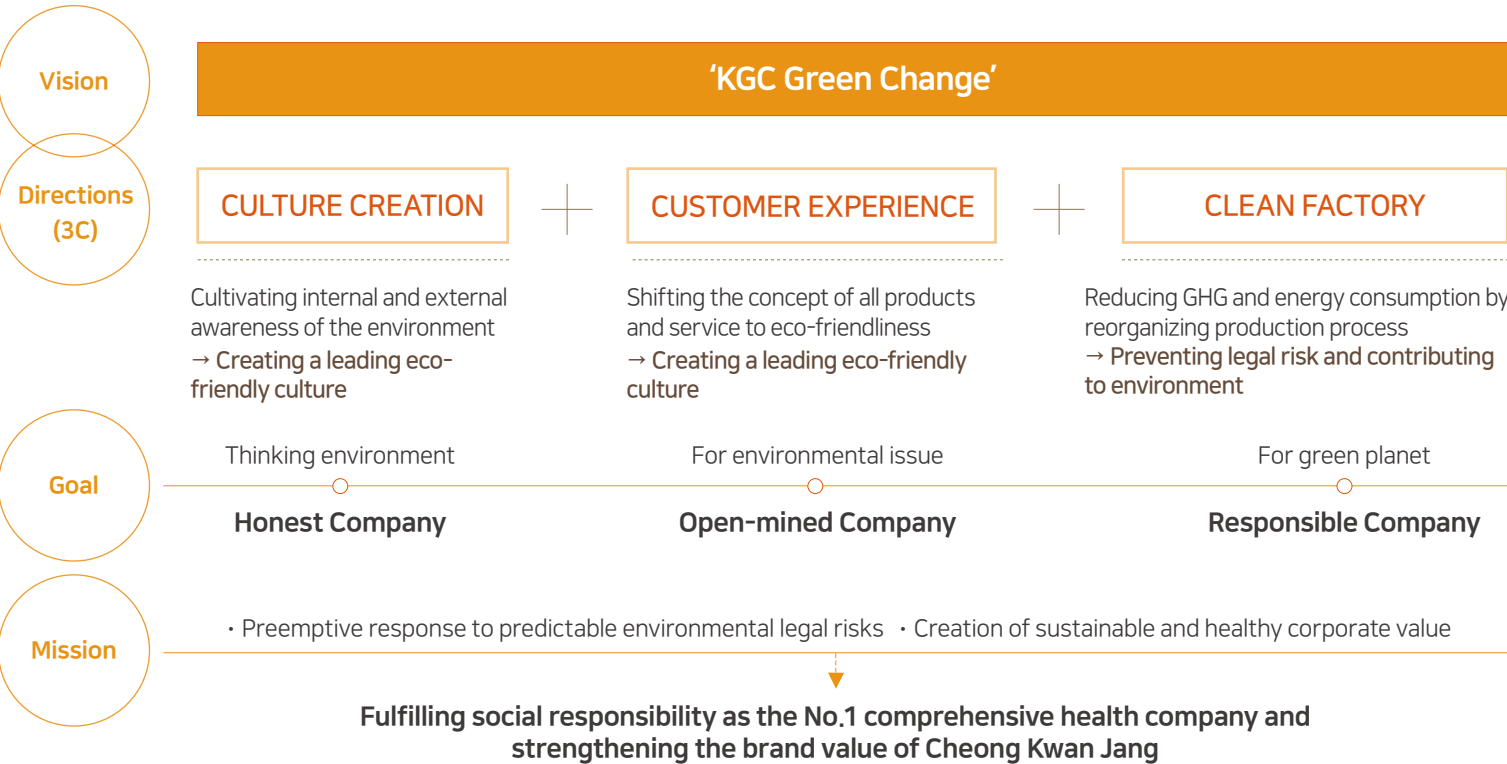
In accordance with the change in consumer perception and the international community's declaration of carbon neutrality (Net-zero), corporate stakeholders are paying attention to the importance of eco-friendly products and resource recycling. Having recognized the increasing consumer interest in eco-friendly product packages, KGC is promoting the development of eco-friendly products. To achieve environmental sustainability, KGC develops eco-friendly packaging materials aimed to reduce waste and reviews various ways to utilize renewable packaging materials. At the strategic level, KGC strives to realize packages that minimize environmental impact, aiming for ‘Zero Waste’ and ‘Low Impact Package.’

Strategic Promotion System

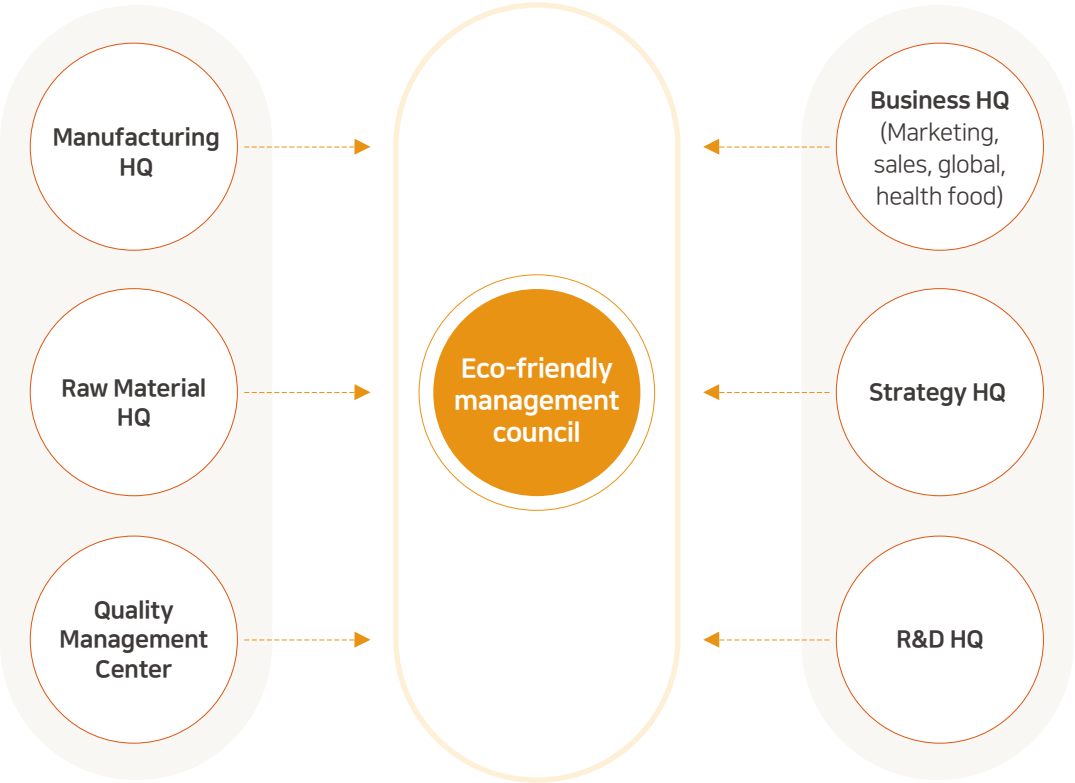
To meet global environmental issues and customer's eco-friendly needs, the Eco-friendly Council established 'KGC Eco-friendly Vision and Direction,' enacted the 'KGC Green Change' as the vision slogan, and declared '3C management' as the direction for achieving the vision. The 3C Management presents the environmental management direction that KGC will pursue based on Culture Creation, Customer Experience, and Clean Plant, and KGC's strategic goals are to become a 'good company for the environment,' 'a company conscious of environmental issues, and a company with a green earth' synchronized with the KT&G group’s philosophy.

In June 2021, KGC launched ‘Green Council’ to promote the company’s active change in eco-friendly products. It has also formed an organization for all product and service groups to coherently respond to customer needs, and it aims to promote eco-friendly group corporate activities by sector in the whole company.

KGC’s environmental vision and direction



Eco-friendly management council



Strategic Tasks and Execution Performance





To derive strategic execution tasks according to KGC's eco-friendly vision and direction, KGC [Step 1] Derived legal and environmental risks; [Step 2] Established action plans; and [Step 3] Implemented and inspected them. In the execution phase, KGC analyzed legal risk responses to environmental issues and stakeholder requirements and derived action tasks for each sector.

KGC’s 10 eco-friendly tasks

Strategy	1. Cultivating eco-friendly awareness and enhancing image
	2. Responding to environmental legal risks
Marketing and health food sales	3. Eco-friendly merchandising
	4. Creating an eco-friendly customer experience environment
Manufacturing	5. Reducing GHG and waste
Raw materials	6. Certifying eco-friendly agricultural products
	7. Building an eco-friendly logistics system
R&D	8. Obtaining the green certification mark
	9. Establishing an eco-friendly package manual
Quality	10. Enhancing eco-friendly quality management

KGC also designed eco-friendly packages for simplifying product packaging and making it more rational. To this end, KGC has selected 85 types of products to improve packaging standards as ‘products in urgent need of applying corrected packaging materials.’ By reducing the use of paper and plastic and applying eco-friendly packaging that is easy to recycle, we have reduced the use of about 190 tons of paper and 22 tons of plastic per year. By changing the polyvinyl chloride (PVC) material, which was difficult to recycle in the past, to polypropylene (PP), and eco-friendlier material, we have become able to reduce the environmental costs during product distribution and use. This eco-friendly packaging was applied to our ‘Good Base Good Box’ products and ‘Jeongkwanjang Alpha Project’ in 2020, with the goal of reducing the use and weight of existing packaging materials.

Application of eco-friendly package design (Cheong Kwan Jang)

Direction of design	Applied product	Application method and effect
Reducing use of packaging materials	3 kinds including Hwang Jin Dan Cheon	<div></div> <ul style="list-style-type: none"><li>• Application of eco-friendly package design process</li><li>• Reduction of 26 tons of wood consumption</li><li>• Improvement of set package style</li></ul>
	85 kinds including Hwal Ki Ryeok	<div></div> <ul style="list-style-type: none"><li>• Application of eco-friendly package design process</li><li>• Reduction of 190 tons of paper consumption</li><li>• Reduction of 22 tons of plastic consumption</li><li>• Improvement of tray recyclability</li></ul>
Rationalizing package style	Good Base Good Box	<div></div> <ul style="list-style-type: none"><li>• Review of reasonable packaging specifications for paper packaging materials</li></ul>
	Alpha Project	<div></div> <ul style="list-style-type: none"><li>• Reduction of plastic consumption</li></ul>



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Future Plans

KGC is paying attention to 'bio-based plastics' to meet the recent global environmental trend to curb GHG emissions and to respond to customers' demands for eco-friendliness by reducing the use of petroleum resources. We will continue our R&D activities to revitalize the circular economy and to contribute to global environmental conservation by selecting bioplastics and recycled plastic (PCR PC, Post-Consumer Recycled Polycarbonate) packaging materials that can be applied differentially according to the products.

○  
Won the Korea Institute of Industrial Technology's  
Director Award at the 15th Korea Packaging  
Exhibition (Paper pouch without metal)



○  
Development of bioplastic



○  
Development of paper-press paper tray



○  
Development of pulp mold tray  
using red ginseng core



○  
Development of foam tray using  
biodegradable PLA material



○  
Development of recyclable plastic



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# WATER RESOURCE MANAGEMENT

SASB Code: FB-PF-140a.1, 2, 3

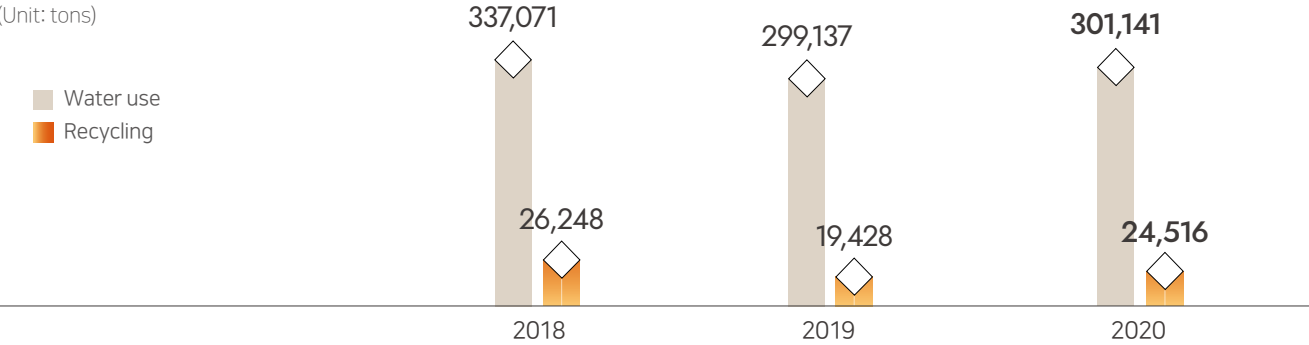
## Water Use and Recycling

### Wonju Plant

The intensity of water use (in unit) of the Wonju plant has been gradually decreasing for the past three years, which is believed to have been contributed somewhat by the efforts to reduce water use, such as the use of heavy water. Wonju Plant has adopted the ‘individual circulation method’ among gray water usage methods to self-treat wastewater generated from the plant and uses it as cleaning water and toilet water inside. By using greywater as a new water source, the Wonju Plant reduces absolute consumption and participates in the efforts of local communities to protect water resources.

#### Water use and recycling in Wonju Plant

(Unit: tons)

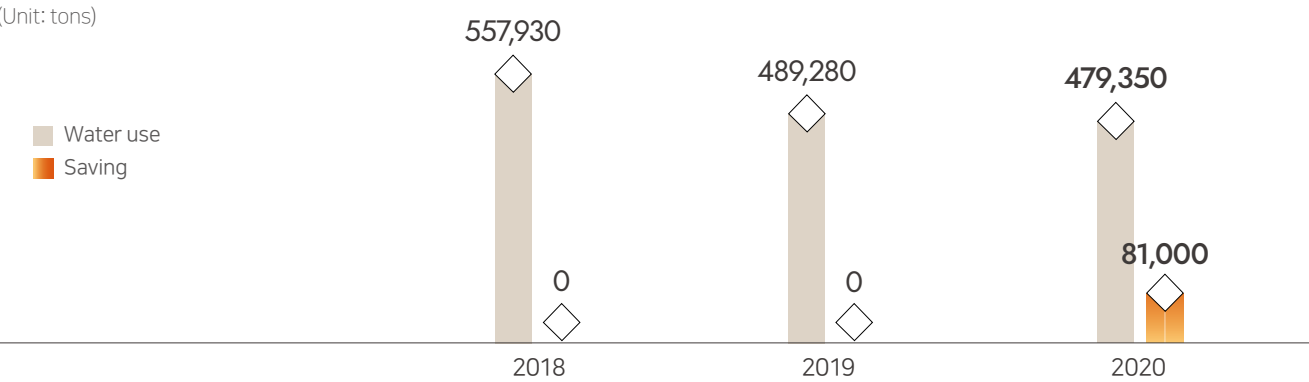


### Buyeo Plant

The Buyeo Plant mainly uses water brought into the business site through the waterworks. In 2020, it used 17.6% of process water in the solid cleanroom, raw material washing, beverage manufacturing, and container washing steps, and saved about 16.9% of water during the same period by adjusting the water level in the water treatment room.

#### Water use and saving in Buyeo Plant

(Unit: tons)



# ENERGY MANAGEMENT

SASB Code: FB-PF-130a.1

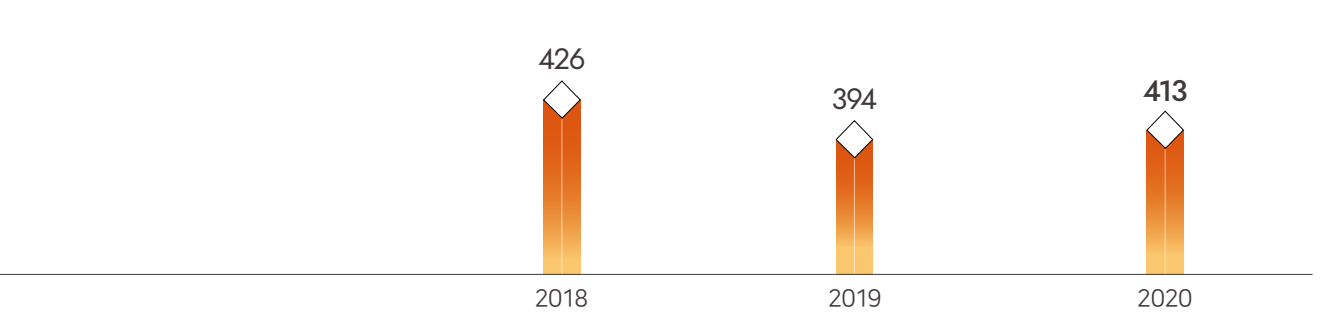
## Energy Use

### Wonju Plant

The energy consumption at Wonju Plant in 2020 was 413 TJ, an increase of 4.8% compared to 2019. This is attributed to the increase in energy use due to the completion of automatic warehouses and other facilities, but the absolute value of energy consumption has decreased compared to 2018. To save energy, the Wonju Plant is replacing luminaires with LEDs and plans to introduce new and renewable energy after reviewing economic feasibility and stability.

#### Energy use in Wonju Plant

(Unit: TJ)

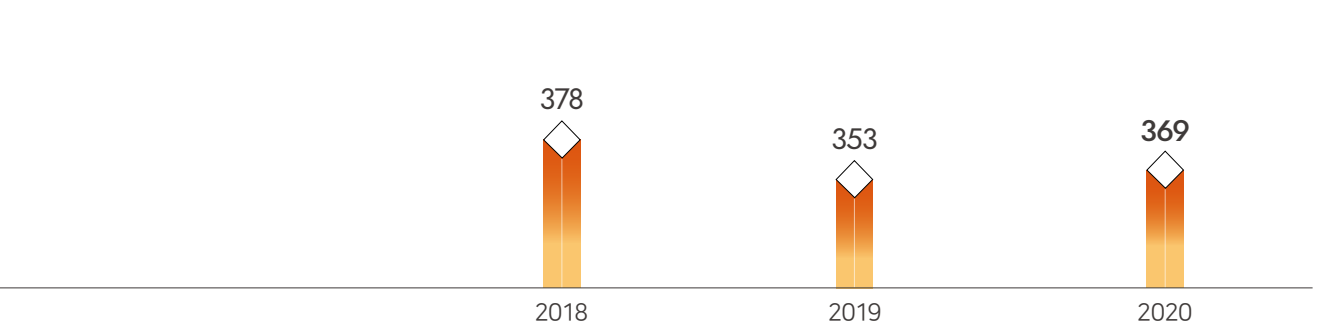


### Buyeo Plant

The sources of energy used at the Buyeo Plant include fixed combustion such as LNG and LPG, mobile combustion energy such as diesel, LPG for vehicles, and gasoline, and indirect energy represented by electricity. In 2019, the energy consumption of Buyeo Plant was 353 TJ, which was used in the order of fixed (52%), indirect (48%), and mobile (less than 1%) energy, and the total energy usage in 2020 was 369TJ, and increase of 4.5% compared to the previous year.

#### Energy use in Buyeo Plant

(Unit: TJ)



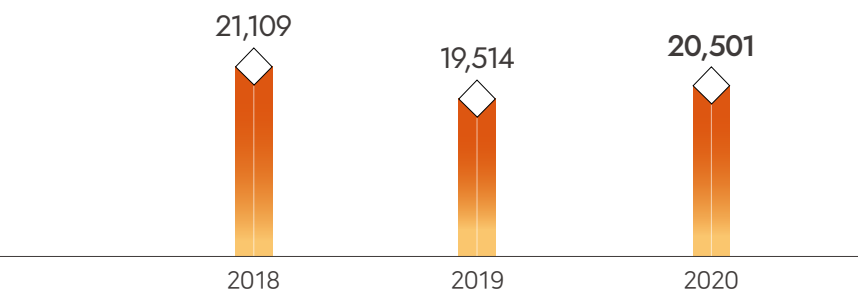
Greenhouse Gas Target Management

KGC's Wonju and Buyeo plants have been designated as GHG management sites and are establishing annual targets for emission control. Buyeo Plant was designated for management in 2012 and has executed the target management system since 2013, and the Wonju Plant was designated in 2016 and has been verifying GHG emission amounts since 2020.

In 2020, the Wonju Plant emitted a total of 20,501tCO<sub>2</sub>eq, and the Buyeo plant emitted a total of 18,324tCO<sub>2</sub>eq. To control GHG emissions, KGC Ginseng Corporation collects and analyzes electricity and fuel consumption per business site in real-time, managing the GHG emissions absolute amount and basic unit data.

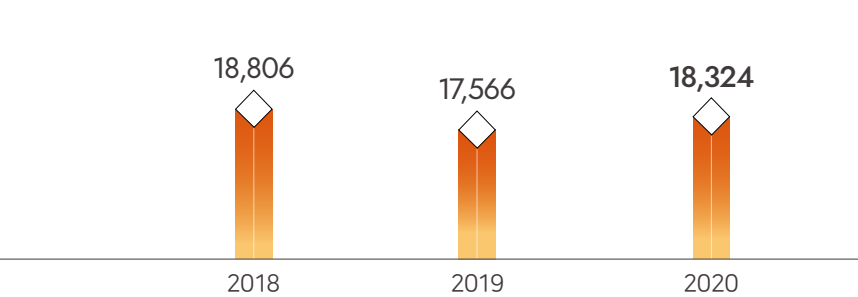
GHG emissions in Wonju Plant

(Unit: tCO<sub>2</sub>eq)



GHG emissions in Buyeo Plant

(Unit: tCO<sub>2</sub>eq)



Greenhouse Gas Reduction Activities

Wonju Plant

In 2020, the total greenhouse gas emissions were 20,501tCO<sub>2</sub>eq, a 5.1% increase from 2019. This increase is analyzed as due to the expansion of the automated logistics warehouse and manufacturing facilities at the Wonju Plant. We have established a GHG reduction plan to manage the 20,097tCO<sub>2</sub>eq allowance of GHG emissions in the Wonju plant in 2021, replaced the workbench with LED products based on this, and continue to carry out energy-saving campaigns in summer and winter.

Buyeo Plant

The Buyeo Plant cleans refrigerators and boiler pipes used in the process using chemical and physical methods, through which we reduce energy efficiency and GHG emissions. In 2020, GHG emissions were reduced by 50tCO<sub>2</sub>eq in steam traps installed to reduce steam consumption, and by improving the operation method of a water treatment system, we can reduce indirect GHG emissions through electricity use by 55tCO<sub>2</sub>eq. Also, by changing the water supply inlet method from the pump to the natural drop method, we have reduced power consumption for pump operation and indirect greenhouse gas emissions by 55tCO<sub>2</sub>eq.

GHG reduction activities and performances in Buyeo Plant

Activity	Performance in 2020	Reduction	Performance in 1H 2021	Reduction
Freezer tube cleaning	Increase of thermal efficiency and reductio of power consumption	75tCO <sub>2</sub> eq	Increase of thermal efficiency and reductio of power consumption	97tCO <sub>2</sub> eq
Boiler tube cleaning	Increase of thermal efficiency	60tCO <sub>2</sub> eq	Increase of thermal efficiency	64tCO <sub>2</sub> eq
Installation of steam trap	Reduction of steam consumption	50tCO <sub>2</sub> eq	-	
Efficient operation	Reduction of power consumption in water treatment system	94tCO <sub>2</sub> eq	-	
Change of water supply method	Reduction of power consumption	55tCO <sub>2</sub> eq		
Improvement of cold water pump operation method	-		Reduction of power consumption	9tCO <sub>2</sub> eq
Replacing obsolete utilities	-		Increase of thermal and electric efficiency	16tCO <sub>2</sub> eq
Integrated operation of freezers			Reduction of power consumption	137tCO <sub>2</sub> eq



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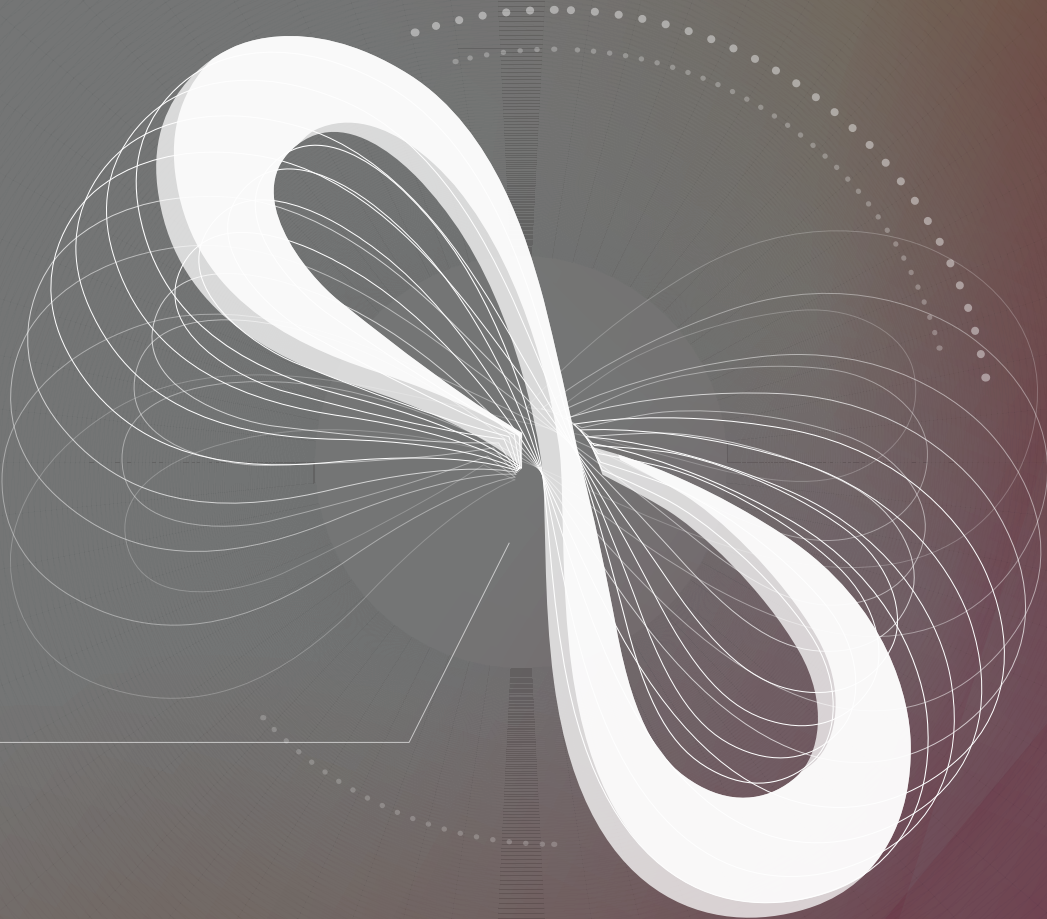
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# ESG DATA BOOK

## KT&G ESG Quantitative Data

As the scope of water and waste data collection was extended to six plants including Sintangjin 2 Plant from existing five plants (Sintangjin, Yeongju, Gwangju, Cheonan, and Gimcheon) this year, it may be different from the data reported in the previous year.

\* Overseas business sites include manufacturing subsidiaries in Russia, Turkey, and Indonesia that have their own production facilities

\* Scope 3 emissions do not include emissions from overseas leaf tobacco cultivation and drying.

Main Category	Scope	Sub Category	Unit	2018	2019	2020
GHG emission	Entire	Direct emission (Scope 1)	tCO <sub>2</sub> eq	35,395	36,250	39,293
		Indirect emission (Scope 2)	tCO <sub>2</sub> eq	78,158	79,889	86,223
		<b>Total (Scope 1+2)</b>	tCO <sub>2</sub> eq	<b>113,553</b>	<b>116,139</b>	<b>125,516</b>
	Domestic	Other indirect emission (Scope 3)	tCO <sub>2</sub> eq	79,040	85,199	76,967
		- Procured products and services	tCO <sub>2</sub> eq	70,556	77,747	70,385
		- Capital goods	tCO <sub>2</sub> eq	-	-	-
		- Fuel & energy related activities (excluding Scope 1 & 2)	tCO <sub>2</sub> eq	-	-	-
		- Upstream transport & distribution	tCO <sub>2</sub> eq	-	-	950
		- Waste from business sites	tCO <sub>2</sub> eq	3,379	3,937	3,468
		- Business trip	tCO <sub>2</sub> eq	2,040	1,890	314
		- Employee commuting	tCO <sub>2</sub> eq	-	-	-
		- Upstream lease assets	tCO <sub>2</sub> eq	-	-	-
		- Downstream transport & distribution	tCO <sub>2</sub> eq	-	-	253
		- Processing of sold products	tCO <sub>2</sub> eq	-	-	-
		- Usage of sold products	tCO <sub>2</sub> eq	3,055	1,620	1,592
		- Disposal of sold products	tCO <sub>2</sub> eq	10	5	5
		- Downstream lease assets	tCO <sub>2</sub> eq	-	-	-
		- Franchise	tCO <sub>2</sub> eq	-	-	-
		- Investment	tCO <sub>2</sub> eq	-	-	-

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Main Category	Scope	Sub Category	Unit	2018	2019	2020
Environmental investment	Entire	Environmental investment plan	KRW million	2,245	1,361	6,379
		Environmental investment practice	KRW million	1,956	1,718	6,615
		Execution rate	%	87%	126%	104%
Water consumption	Domestic	Waterworks	ton	420,533	439,861	489,651
		Underwater	ton	93,646	103,929	104,618
		Subtotal	ton	514,179	543,790	594,269
		Water use intensity	ton/KRW 100 million	19.59	18.48	17.30
	Overseas	Waterworks	ton	30,087	30,861	28,548
		Underwater	ton	162,404	167,741	143,134
		Subtotal	ton	192,491	198,602	171,682
	Entire	Total water consumption	ton	706,670	742,392	765,951
Waste emission and recycling	Domestic	Incineration	ton	1,133	1,557	3,652
		Landfill	ton	164	4	3
		Recycling	ton	5,887	6,602	5,351
		Others	ton	687	821	857
		Subtotal waste emitted	ton	7,870	8,983	9,863
		Waste recycling rate	ton	75%	73%	54%
		Waste emission intensity	ton/KRW 100 million	0.30	0.31	0.29
	Overseas	Incineration	ton	132	151	180
		Landfill	ton	24	77	375
		Recycling	ton	164	138	378
		Subtotal waste emitted	ton	320	367	932
		Waste recycling rate	%	51%	38%	40%
	Entire	Total waste emitted	ton/KRW 100 million	8,190	9,350	10,795

Main Category	Scope	Sub Category	Unit	2018	2019	2020
Air pollutant emission	Domestic	NOx	ton	8.84	16.76	9.18
		SOx	ton	0.00	1.71	0.05
		Dust (PM)	ton	0.29	4.31	2.43
		Subtotal	ton	9.13	22.78	11.67
Water pollutant emission	Domestic	BOD	ton	0.18	0.89	0.61
		COD	ton	0.61	3.56	2.21
		SS	ton	0.49	1.73	1.05
		T-N	ton	0.32	1.35	1.56
		T-P	ton	0.01	0.06	0.04
		Subtotal	ton	1.61	7.58	5.47
Green purchasing	Domestic	Green purchasing of materials	KRW 100 million	366	406	479
Cutomer information protection	Domestic	Information leakage	case	-	-	-
VOCs by channel	Domestic	Phone counseling	case	208,657	262,760	183,585
		ARS	case	19,082	19,372	26,402
		1:1 counseling	case	10,128	19,996	10,258
		Chatting counseling	case	-	-	1,185
			case	237,867	302,128	221,430
VOCs by type	Domestic	Inquiry of product purchasing and location	case	27,621	29,916	21,157
		Discout coupon and homepage	case	3,597	11,349	9,443
		Inquiry of A/S	case	184,726	237,383	174,380
		Claim on cigarettes	case	166	118	697
		Others (phone number, general)	case	21,757	23,362	15,753
		Total	case	237,867	302,128	221,430
CS center (call center)	Domestic	-	place	1	1	1

\* Green purchasing result may differ from previous reported data due to changes in the management scope driven by the application of the integrated purchasing system (KAPS).



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Main Category	Scope	Sub Category	Unit	2018	2019	2020
Online channel	Domestic	Homepage	place	1	1	1
		Online customer center	place	-	-	1
		Kakao channel	place	-	-	1
		lil store	place	-	-	1
Offline channel	Domestic	lil minimulium	place	3	8	5
		A/S center	place	10	17	25
		lil station	place	31	40	100
		Visiting A/S	place	121	121	121
Customer communication channel	Domestic	Total	place	167	189	256
Employment	Domestic	Subtotal	persons	4,155	4,386	4,331
	Overseas*	Turkey	persons	78	78	79
		Indonesia	persons	2,573	3,052	3,191
		Russia	persons	130	131	139
		Others	persons	143	193	185
			persons	2,924	3,454	3,594
	Entire	Percentage of overseas employees	%	41.31	44.06	45.35
		Total	persons	7,079	7,840	7,925
Manager position**	Domestic	Male managers	persons	1,895	1,871	1,828
		Female managers	persons	186	183	179
Female employees	Domestic	Percentage of female employees	%	9.58	10.24	10.32
		Female employees at profiit creation de- partments	persons	151	151	151
			persons	14.01	12.76	13.59
	Overseas	Percentage of female employees	persons	23.26	21.25	18.48
		Percentage of female employees	persons	15.23	15.09	14.02
	Entire	Percentage of female employees				
Average service period	Domestic	Male	years	17.9	17.1	17.3
		Female	years	18.0	15.3	14.6
Employment of the disabled	Domestic	Employees with disabilities	persons	147	140	126
		Disabled employment rate	%	3.54	3.19	2.91

\* Including Turkey, Russia, Indonesia, U.S., and China

\*\* Including managers and higher positions engaging in general works, research, accounting, legal affairs, patent, professional, and directors (excluding registered directors)

\*\*\* Profit-creatable department: Sales, marketing, NGP, and global headquarters (including subsidiaries and institutions)

Main Category	Scope	Sub Category	Unit	2018	2019	2020
Age	Domestic	Under 30	persons	204	433	457
		30 ~ 49	persons	2,109	2,207	2,260
		50 and older	persons	1,842	1,746	1,614
		Total	persons	4,155	4,386	4,331
New employment	Domestic	Male	persons	189	366	127
		Female	persons	24	60	75
		Under 30	persons	74	223	45
		30 ~ 49	persons	85	140	103
		50 and older	persons	54	63	54
		Total	persons	213	426	202
Turnover	Domestic	Male	persons	172	173	172
		Female	persons	24	29	49
		Total	persons	196	202	221
		Turnover rate	%	4.72	4.61	5.10
		Voluntary turnover rate	%	0.9	0.9	0.7
Childbirth leave and childcare leave	Domestic	Male childbirth leave users	persons	69	73	54
		Female childbirth leave users	persons	14	18	20
		Rate of return to work after childbirth leave (male)	%	100	100	100
		Rate of return to work after childbirth leave (female)	%	100	100	100
		Male childcare leave users	persons	24	18	7
		Female childcare leave users	persons	22	22	18
		Rate of return to work after childcare leave (male)	%	100	100	100
		Rate of return to work after childcare leave (female)	%	100	100	100
		Retirement rate within 12 months after return to work from childcare leave (male)	%	8	11	14
		Retirement rate within 12 months after return to work from childcare leave (female)	%	-	-	-

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Main Category	Scope	Sub Category	Unit	2018	2019	2020
Union membership	Domestic	Employees eligible for membership	persons	4,009	4,024	4,128
		Union members	persons	3,596	3,596	3,679
		Union membership rate	%	89.7%	89.4%	89.1%
Employee training	Domestic	Total number of trainees	persons	25,375	32,454	61,054
		Annual average training expense per employee	KRW thousand	1,050	1,387	1,030
		Annual average time spent on training per employee	hours	115	124	172
Performance evaluation	Domestic	Employees eligible for evaluation	persons	3,707	3,796	3,782
		Percentage of employees evaluated	%	97.5	97	95.6
Human rights protection	Domestic	Sexual harassment prevention training	times	2	1	1
		Employees who completed sexual harassment prevention training	persons	3,945	3,950	3,977
Industrial accident	Domestic	Number of victims	persons	2	3	2
		Industrial accident rate	%	0.04	0.057	0.042
	Overseas	Number of victims	persons	5	11	16
		Industrial accident rate	%	0.171	0.318	0.445
	Entire	Number of victims	case	7	14	18
			hours	15,055,196	16,523,120	17,013,529
Work loss	Domestic	LTIFR	-	0.265	0.395	0.256
	Overseas	LTIFR	-	0.665	1.232	1.739
	Entire	Total	-	0.465	0.847	1.058
ISO certification	Domestic	ISO14001 certification				
		- Certification rate	%	66.7	66.7	66.7
		- Number of worksites that obtained the certification	places	4	4	4
		- Number fo worksites eligible for obtainment	places	6	6	6

\* Industrial accident: including daily workkers

\* LTIFR (Lost Time Injuries Frequency Rate) = (Number of accidents / Total labor hours) x 1,000,000, including daily workers

Main Category	Scope	Sub Category	Unit	2018	2019	2020
		ISO9001 certification				
		- Certification rate	%	66.7	83.3	83.3
		- Number of worksites that obtained the certification	places	4	5	5
		- Number fo worksites eligible for obtainment	places	6	6	6
		ISO27001 certification				
		- Certification rate	%	83.3	83.3	83.3
		- Number of systems that obtained the certification	places	5	5	5
		- Number fo systems eligible for obtainment	places	6	6	6
Purchasing and use of raw materials	Domestic	Purchasing of raw materials (leaf tobacco, tobacco sheet, auxiliary material)*	KRW million	282,812	288,833	281,820
		Raw materials consumption	ton	37,405	38,095	41,665
Leaf tobacco partner	Domestic	Domestic partners (farmers)	persons	3,144	2,880	2,960
		Domestic purchasing	KRW 100 million	947	1,175	961
		Overseas partners	firms	17	19	19
		Overseas purchasing	KRW 100 million	1,881	1,713	1,858
		<b>Total purchasing</b>	KRW 100 million	<b>2,828</b>	<b>2,888</b>	<b>2,819</b>
Purchasing of entire domestic leaf tobacco	Domestic	Purchasing volume	ton	8,429	10,214	7,741
		Purchasing amount	KRW 100 million	800	965	745
NTM (Non-Tobacco Material) partners	Domestic	Domestic partners	firms	70	74	70
		Domestic purchasing	KRW 100 million	3,652	4,352	5,173
		Overseas partners	firms	9	12	10
		Overseas purchasing	KRW 100 million	294	440	445
		<b>Total number of partners</b>	firms	<b>79</b>	<b>86</b>	<b>80</b>
		<b>Total amount of purchasing</b>	KRW 100 million	<b>3,946</b>	<b>4,792</b>	<b>5,618</b>

\* Including purchasing of tobacco sheet from Tae-a Industrial

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Support for partners	Domestic	Early payment of purchasing amount	KRW million	30,474	45,885	27,234
Haearin project	Domestic	Number of farmers	persons	21	20	22
		Purchasing of dried red pepper	kg	11,691	10,488	11,640
		Purchasing amount of dried red pepper	KRW 100 million	3.22	1.58	2.95
Social contribution	Domestic	Social responsibility (youth startup, SangSang Fund, CSR, sponsorship, etc.)	KRW 100 million	285	507	198
		Arts & culture (SangSang Madang, SangSang Univ., etc.)	KRW 100 million	227	343	297.7
		Scholarship foundation, welfare foundation, etc.	KRW 100 million	157	160	175.9
		Total	KRW 100 million	669	1,010	672
		Social contribution investment to sales	%	2.55	3.43	1.95
BOD	Domestic	Number of BOD meetings held	times	17	10	14
		Attendance rate of non-executive directors	%	97.1	98.3	100.0
Compensation	Domestic	Director compensation (all directors and auditors)	KRW million	4,099	2,403	2,330
		CEO salary	KRW million	2,479	1,177	1,173
		Average salary of employees	KRW million	83	80	88
		CEO salary compared with average employee salary	%	3.35	6.80	7.50
			times	29.87	14.71	13.33
ESG evaluation	Domestic	KCGS	rating	A+	A+	A
		MSCI	rating	BBB	BBB	A
		Sustainvest	rating			AA
Violation of laws and regulations	Domestic	Fair trade related legal sanctions	case	-	-	-
		Environment-related penalty	KRW thousand	480	2,800	8,400
		Violation of display advertising regulation	case	-	-	-
		Personal informaton leakage	case	-	-	-

Main Category	Scope	Sub Category	Unit	2018	2019	2020
Punishment	Domestic	Dismissal	case	1	-	-
		Suspension	case	5	9	5
		Pay cut	case	4	7	6
		reprimand	case	5	9	12
		Total	case	15	25	23
R&D	Domestic	R&D investment	KRW million	17,898	23,401	26,317
		R&D performance	case	54	48	59
		Patents (owned)	case	222	200	211
NGP	Entire	Unit sales of devices	10 thousand units	149	105	188
		Unit sales of sticks	100 million sticks	12	24.6	28.5
		Market share in the stick market (domestic)	%	16.1	31.7	34.3
		NGP sales	KRW 100 million	1,763	2,265	2,792
		NGP sales growth (YoY)	%	2,131.6	28.5	23.3
		NGP's sales proportion in the tobacco business	%	6.8	8.2	9.5
		NGP sales markets	countries	1	1	4
		NGP patents applied	items	219	380	1,106
		- Domestic	items	178	188	349
		- Overseas	items	41	192	757
		NGP trademarks applied	items	365	1,536	248
		- Domestic	items	158	62	56
		- Overseas	items	207	1,474	192
		NGP design rights applied	items	355	279	63
		- Domestic	items	122	37	19
		- Overseas	items	233	242	44



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Main Category	Scope	Sub Category	Unit	2018	2019	2020
Energy use	Domestic	Fuel (fixed combustion)	TJ	382.9	351.3	370.7
		Electricity (indirect emission)	TJ	420.3	395.3	410.9
		Others	TJ	0.3	0.3	0.3
		Total	TJ	803.5	746.9	781.9
		Energy intensity	TJ/KRW 100 million	0.06	0.05	0.06
GHG emission	Domestic	Direct emission (Scope 1)	TJ	19,474	17,863	18,855
		Indirect emission (Scope 2)	TJ	20,440	19,218	19,970
		Total	TJ	39,915	37,080	38,825
		GHG emission intensity (Scope 1+2)	TJ	3.01	2.64	2.91
Environmental investment	Domestic	Environmental investment plan	KRW million	5.9	2.5	19.2
		Environmental investment practice	KRW million	5.9	2.5	19.2
		Execution rate	%	100%	100%	100%
Water use	Domestic	Waterworks	ton	891,378	787,509	780,491
		Underwater	ton	3,623	2,309	658
		Total	ton	895,001	789,818	781,149
		Water recycling (Wonju)	ton	26,248	19,428	24,516
		Water use intensity	ton/KRW 100 million	67.38	56.27	58.58

Main Category	Scope	Sub Category	Unit	2018	2019	2020	
Waste emission and recycling	Domestic	Total emissions	ton	1,830	3,988	4,778	
		- Incineration	ton	109	6	20	
		- Landfill	ton	415	231	298	
		- Recycling	ton	1,306	3,751	4,460	
		Waste recycling rate	%	71.36	94.06	93.34	
		Waste emission intensity	ton/KRW 100 million	0.14	0.28	0.36	
		Air pollutant emission	Wonju Plant	NOx	ppm	비대상	비대상
SOx	ppm			n/a	n/a	n/a	
Dust	mg/Sm3			미집계	미집계	2.9	
VOCs	ppm			n/a	n/a	n/a	
Buyeo Plant	NOx		ppm	34.00	40.80	46.00	
	SOx		ppm	n/a	n/a	n/a	
	Dust		mg/Sm3	5.4	5.3	7.9	
	VOCs		ppm	n/a	n/a	n/a	
Water pollutant emission	Wonju Plant		BOD	mg/L	n/a	n/a	n/a
			COD	mg/L	7.8	14	9.7
		T-N	mg/L	4.155	5.971	5.647	
		T_P	mg/L	0.252	0.705	0.291	
		SS	mg/L	3	3.5	1.7	
	Buyeo Plant	COD	mg/L	26	20.5	20.1	
		BOD	mg/L	7.6	7.6	7.3	
		SS	mg/L	23.6	20.8	17.5	

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Main Category	Scope	Sub Category	Unit	2018	2019	2020
Employment*	Entire	Domestic	persons	1,579	1,671	1,642
		- Male	persons	824	887	885
		- Female	persons	755	784	757
		Overseas	persons	17	19	21
		- Male	persons	17	18	20
		- Female	persons	-	1	1
		Total	persons	1,596	1,690	1,663
Female employees	Domestic	Percentage of female employees	%	48	47	46
	Overseas	Percentage of female employees	%	0	5	5
	Entire	Percentage of female employees	%	47	46	46
Employment of the disabled	Entire	Number of employees with disabilities	persons	16	15	14
		Disabled employment rate	%	0.99	0.85	0.81

\* Full-time employees

Main Category	Scope	Sub Category	Unit	2018	2019	2020
Industrial accident*	Entire	Industrial accident victims in Korea	persons	1	1	2
		Industrial accident rate in Korea	%	0.048	0.047	0.103
		Industrial accident victims in overseas sites	persons	-	-	-
		Industrial accident rate in overseas sites	%	-	-	-
		Industrial accident rate in all sites	%	0.047	0.046	0.102
		Accident	cases	1	1	2
		Disease	cases	-	-	-
		Total labor hours	hours	3,421,600	3,594,240	3,521,440
BOD	Domestic	BOD meetings held	times	8	9	8
		Attendance rate of non-executive directors	%	1.00	89%	1.00
Violation of laws and regulations	Domestic	Fair trade related legal sanctions	cases	-	-	-
		Environment-related penalty	KRW	1	1	-
		Violation of display advertising regulation	cases	-	-	-
		Personal informaton leakage	cases	-	-	-
R&D	Domestic	R&D investment	KRW million	12,113	12,246	11,259
		R&D performance	cases	61	70	66
		Patents (owned)	cases	212	229	257

\* Including daily workers

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Main Category	Sub Category	Unit	2018	2019	2020
Energy use	Fuel (LNG)	TJ	25.02	25.71	20.69
	Electricity	TJ	36.51	40.51	35.55
	Steam	TJ	0.00	0.00	0.00
	Total	TJ	61.54	66.22	56.24
	Energy intensity	TJ/KRW 100 million	0.03	0.03	0.03
GHG emission	Direct emission (Scope 1)	tCO <sub>2</sub> eq	564.00	511.00	348.00
	Indirect emission (Scope 2)	tCO <sub>2</sub> eq	2,302.47	2,515.35	2,015.08
	Total (Scope 1+2)	tCO <sub>2</sub> eq	2,866.47	3,026.35	2,363.08
	GHG emission intensity (Scope 1+2)	tCO <sub>2</sub> eq/KRW 100 million	1.54	1.37	1.13
Environmental investment	Environmental investment plan	KRW million	146	475	1,231
	Environmental investment practice	KRW million	146	339	1,247
	Execution rate	%	100.0	71.4	101.3
Water use	Waterworks	ton	113,456	124,121	105,257
	Underwater	ton	28,153	5,523	-
	Total	ton	141,609	129,644	105,257
	Water use intensity	ton/KRW 100 million	76	59	50
Waste emission and recycling	Total emissions	ton	3,942	5,621	3,730
	- Incineration	ton	742	2,296	688
	- Landfill	ton	144	265	146
	- Recycling	ton	3,056	3,060	2,897
	Waste recycling rate	%	77.53	54.43	77.66
	Waste emission intensity	ton/KRW 100 million	0.48	1.16	0.40
Air pollutant emission	NOx	ppm	78.70	78.70	21.20
	SOx	ppm	0.00	0.00	4.55
	Dust	mg/Sm3	17.36	19.00	8.80
	VOCs	ppm	-	-	-
Water pollutant emission	COD	mg/L	74.00	143.98	96.89
	BOD	mg/L	62.30	87.20	60.00
	SS	mg/L	50.00	15.40	96.00

Main Category	Sub Category	Unit	2018	2019	2020
Employment	Domestic	persons	616	646	630
	- Male	persons	472	485	462
	- Female	persons	144	161	168
	Total	persons	616	646	630
	Percentage of female employees	%	23.38	24.92	26.67
Employment of the disabled	Number of employees with disabilities	persons	4	3	3
	Disabled employment rate	%	0.65	0.46	0.48
Industrial accident	Industrial accident victims in Korea	persons	-	-	-
	Industrial accident rate in Korea	%	-	-	-
	Industrial accident rate	%	-	-	-
	Accidents	cases	-	-	-
	Total labor hours	hours	1,583,493	1,678,204	1,613,965
ISO certification	ISO37001 certification	-	인증	재인증	재인증
	- Certification rate	%	100	100	100
	- Number of worksites that obtained the certification	places	1	1	1
	- Number of worksites eligible for obtainment	places	1	1	1
BOD	BOD meetings held	times	10.00	8.00	10.00
	Attendance rate of non-executive directors	%	97.5	100.0	93.9
ESG evaluation rating	KCGS	rating	B	B	B
Violation of laws and regulations	Fair trade related legal sanctions	cases	-	-	-
	Environment-related penalty	KRW	2,800,000	1,600,000	-
	Violation of display advertising regulation	cases	-	-	-
	Privacy leakage	cases	-	-	-
R&D	R&D investment	KRW 100 million	119.9	135.1	150.7
	R&D performance	cases	16	48	36
	Patents (owned)	cases	102	154	190



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Consolidated Balance Sheet

(Unit: KRW in millions)

	2018	2019	2020
Assets:			
Current assets	6,413,404	6,417,221	6,750,383
Cash and cash equivalents	932,969	891,306	1,253,611
Current other financial assets	584,580	397,949	407,735
Current financial assets at fair value through profit or loss	1,139,705	1,239,263	914,424
Trade and other receivables	975,921	1,023,386	1,215,049
Derivative assets	1,239	2,277	12,710
Inventories	2,461,319	2,447,243	2,535,032
Refund assets and others	2,356	3,027	1,055
Accrued tobacco excise and other taxes	232,237	291,482	271,577
Advance payments	54,208	83,696	96,526
Prepaid expenses	24,623	33,345	39,982
Assets held for sale	4,247	4,247	2,681
Non-current assets:	3,784,467	4,335,218	4,718,001
Long-term other financial assets	8,566	4,480	10,129
Long-term deposits in MSA Escrow Fund	615,528	751,437	909,794
Long-term financial assets measured at fair value through profit or loss	210,655	251,895	253,562
Long-term trade and other receivables	62,903	77,062	97,409
Long-term financial assets measured at fair value through other comprehensive income or loss	249,575	257,640	239,539
Investments in associates and joint ventures	83,989	49,393	132,187
Property, plant and equipment	1,819,169	1,753,739	1,718,412
Intangible assets	114,312	129,624	134,084
Investment properties	495,049	885,325	1,030,179
Right-of-use assets	-	45,484	49,088
Long-term refundable assets, etc.	224	-	-
Long-term advance payments	71,394	72,519	83,059
Long-term prepaid expenses	7,873	7,465	9,579
Deferred income tax assets	45,230	49,153	50,933
Net defined benefit assets	-	-	46
Total assets	10,197,870	10,752,439	11,468,383

	2018	2019	2020
Liabilities:			
Current liabilities	1,640,708	1,600,094	1,991,492
Short-term borrowings	129,924	27,066	17,308
Current portion of long-term borrowings	5,000	5,285	37,506
Trade and other payables	560,507	656,583	969,202
Current lease liabilities	-	18,909	19,880
Derivative liabilities	461	-	57
Advance receipts	171,501	77,029	100,837
Current refund liabilities and provisions	15,101	26,667	27,509
Current income tax liabilities	200,797	212,538	234,566
Tobacco excise and other taxes payables	557,418	576,018	584,576
Liabilities held for sale	-	-	51
Non-current liabilities	388,959	412,760	385,319
Long-term borrowings	93,475	90,954	53,492
Long-term trade and other payables	53,240	59,638	49,480
Long-term lease liabilities	0	24,397	25,829
Long-term advance receipts	5,580	4,155	8,193
Net defined benefit liabilities	96,215	91,083	112,959
Long-term refund liabilities and provisions	3,845	3,090	3,192
Deferred income tax liabilities	133,204	136,608	130,558
Non-controlling interests liabilities	3,400	2,836	1,615
Total liabilities	2,029,667	2,012,854	2,376,811
Equity:			
Share capital	8,114,403	8,684,217	9,036,851
Other capital surplus	954,959	954,959	954,959
Treasury shares	4,334	4,498	4,498
Gain on sale of treasury shares	(328,157)	(318,789)	(531,618)
Reserves	513,776	528,894	528,894
Retained earnings	5,364,157	5,680,009	5,977,643
Equity attributable to owners of the Parent Company	1,605,334	1,834,646	2,102,475
Non-controlling interests	53,800	55,369	54,721
Total equity	8,168,204	8,739,585	9,091,572
Total liabilities and equity	10,197,870	10,752,439	11,468,383

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Consolidated statements of comprehensive income

(Unit: KRW in millions)

	2018	2019	2020
<b>Sales</b>	<b>4,471,516</b>	<b>4,963,202</b>	<b>5,301,618</b>
Cost of sales	1,836,031	2,088,576	2,331,515
Gross profit	2,635,484	2,874,626	2,970,102
Selling, general and administrative expense	1,382,025	1,495,036	1,489,051
<b>Operating profit</b>	<b>1,253,459</b>	<b>1,379,591</b>	<b>1,481,051</b>
Other income	110,050	105,871	289,764
Other expense	134,909	109,668	267,178
Finance income	91,585	96,705	117,771
Finance cost	6,957	13,796	13,409
Share of net profit of associates and joint ventures	9,255	1,541	4,135
Profit before income tax	1,322,484	1,460,243	1,612,134
Income tax expense	419,124	423,045	440,491
<b>Profit for the year</b>	<b>903,359</b>	<b>1,037,199</b>	<b>1,171,643</b>
Other comprehensive income (loss) after income tax:	(44,721)	19,464	(49,877)
Items that will not be reclassified to profit or loss	(52,498)	(3,602)	(26,802)
Re-measurements of net defined benefit liabilities	(24,807)	(10,425)	(16,212)
Gain (loss) on valuation of fair value through other comprehensive income or loss	(27,707)	6,923	(10,548)
Capital changes in equity method	17	(100)	(42)
Items that will be reclassified to profit or loss	7,777	23,066	(23,074)
Exchange differences on translating foreign operations	7,777	23,066	(23,241)
Capital changes in equity method	-	-	167
<b>Total comprehensive income for the year</b>	<b>858,638</b>	<b>1,056,662</b>	<b>1,121,766</b>
Profit attributable to:			
Owners of the Parent Company	906,350	1,035,003	1,171,734
Non-controlling interests	(2,991)	2,195	(91)
Other comprehensive income for the year attributable to:			
Owners of the Parent Company	862,558	1,054,895	1,122,415
Non-controlling interests	(3,920)	1,768	(648)
Earnings per share:			
Basic	7,178	8,196	9,320
Diluted	7,178	8,196	9,320



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	Capital								
	Attributable to stockholders of the Company							Non-controlling interests	Total equity
	Share capital	Other capital surplus	Treasury shares	Gains on sale of treasury shares	Reserve	Retained earnings	Owners of the parent		
Balance at January 1, 2018	954,959	4,334	-328,157	513,776	4,935,861	1,721,704	7,802,477	57,707	7,860,184
Effect of changes in accounting policy	-	-	-	-	-36,766	-8,805	-45,571	-	-45,571
Profit for the year	-	-	-	-	-	906,350	906,350	-2,991	903,359
Other comprehensive income (loss) for the year:	-	-	-	-	-19,766	-24,027	-43,793	-929	-44,721
Dividends	-	-	-	-	-	505,061	505,061	-	505,061
Gain (loss) on treasury share transactions	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of retained earnings	-	-	-	-	485,036	-485,036	-	-	-
Changes in non-controlling interests, etc.	-	-	-	-	-208	208	-	13	13
Balance at December 31, 2018	954,959	4,334	-328,157	513,776	5,364,157	1,605,334	8,114,403	53,800	8,168,204
Balance at January 1, 2019	954,959	4,334	-328,157	513,776	5,364,157	1,605,334	8,114,403	53,800	8,168,204
Effect of changes in accounting policy	-	-	-	-	-	-4,670	-4,670	0	-4,670
Profit for the year	-	-	-	-	-	1,035,003	1,035,003	2,195	1,037,199
Other comprehensive income (loss) for the year:	-	-	-	-	29,886	-9,995	19,891	-428	19,464
Dividends	-	-	-	-	-	505,061	505,061	-	505,061
Gain (loss) on treasury share transactions	-	-	9,368	15,118	-	-	24,486	-	24,486
Gain (loss) on disposal of retained earnings	-	-	-	-	285,966	-285,966	-	-	-
Changes in non-controlling interests, etc.	-	164	-	-	-	-	164	-199	-36
Balance at December 31, 2019	954,959	4,498	-318,789	528,894	5,680,009	1,834,646	8,684,217	55,369	8,739,585
Balance at January 1, 2020	954,959	4,498	-318,789	528,894	5,680,009	1,834,646	8,684,217	55,369	8,739,585
Effect of changes in accounting policy	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	1,171,734	1,171,734	-91	1,171,643
Other comprehensive income (loss) for the year:	-	-	-	-	-33,666	-15,654	-49,320	-557	-49,877
Dividends	-	-	-	-	-	556,952	556,952	-	556,952
Gain (loss) on treasury share transactions	-	-	-212,829	-	-	-	-212,829	-	-212,829
Gain (loss) on disposal of retained earnings	-	-	-	-	331,300	-331,300	-	-	-
Changes in non-controlling interests, etc.	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	954,959	4,498	-531,618	528,894	5,977,643	2,102,475	9,036,851	54,721	9,091,572

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Consolidated statements of cash flows

	2018	2019	2020
Cash flows from operating activities	821,654	1,042,489	1,261,665
Cash generated from operations	1,161,901	1,464,083	1,685,603
Income taxes paid	(340,247)	(421,593)	(423,938)
Cash flows from investing activities	(46,256)	(459,191)	(85,835)
Interest received	15,800	19,146	19,927
Dividends received	21,665	24,693	26,140
Decrease in other financial assets	-	534,003	562,840
Decrease in current financial assets measured at fair value through profit or loss	813,268	-	346,404
Decrease in long-term financial assets measured at fair value through profit or loss	43,058	15,892	33,667
Decrease in long-term deposits in MSA Escrow Fund	-	-	30,191
Disposal of property, plant and equipment	27,335	3,738	4,814
Disposal of intangible assets	833	1,100	2,639
Disposal of investment properties	-	-	4,407
Disposal of assets held for sale	-	-	144,712
Decrease in financial assets measured at fair value through other comprehensive income or loss	1,153	-	3,134
Disposal of investments in associates and joint ventures	5,025	34,151	21,208
Collection of loans	14,740	12,321	14,315
Collection of guarantee deposits	3,710	1,212	694
Collection of finance lease receivables	-	75	488
Acquisitoin of government subsidy	63	-	-
Increase in other financial assets	(382,381)	(343,223)	(578,456)
Increase in current financial assets measured at fair value through profit or loss	0	(57,593)	(6,000)
Increase in long-term financial assets measured at fair value through profit or loss	(93,500)	(54,677)	(14,423)
Increase in long-term deposits in MSA Escrow Fund	(72,399)	(114,412)	(223,125)
Acquisition of property, plant and equipment	(353,313)	(222,248)	(216,059)
Acquisition of intangible assets	(6,292)	(34,948)	(35,744)
Acquisition of investment properties	(40,557)	(256,285)	(86,158)
Acquisition of right-of-use assets	-	-	(522)

(Unit: KRW in millions)

	2018	2019	2020
Acquisition of assets held for sale	-	-	(3,283)
Acquisition of investments in associates and joint ventures	(30,500)	-	(101,500)
Increase in loans	(5,935)	(19,004)	(35,189)
Increase in guarantee deposits	(6,679)	(3,133)	(956)
Increase in financial assets measured at fair value through other comprehensive profit or loss	(1,350)	-	-
Cash flows from financing activities	(549,376)	(632,146)	(808,888)
Dividends paid	(505,061)	(505,061)	(556,952)
Interest paid	(2,464)	(3,581)	(3,372)
Repayment of lease liabilities	-	(18,604)	(21,187)
Repayment of borrowings	(686,994)	(307,061)	(165,109)
Acquisition of treasury shares	-	-	(212,829)
Capital increase with consideration	-	-	1
Increase in borrowings	641,712	202,160	150,559
Increase in non-coltrolling interest	3,430	-	-
Effect of exchange rate fluctuation on cash and cash equivalents	(8,170)	7,184	(4,636)
Net increase(decrease) in cash and cash equivalents	217,852	(41,663)	362,305
Cash and cash equivalents at January 1	715,117	932,969	891,306
Cash and cash equivalents at December 31	932,969	891,306	1,253,611



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	102-28	Evaluating the highest governance body's performance	20, 90
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	102-47	List of material topics	25
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FOOD & BEVERAGE SECTOR - TOBACCO

Code	Topic	Accounting metric	Category	Unit of measure	Page
FB-TB-260a.1	Public Health	(1) Gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products	Quantitative	KRW	51, 117
FB-TB-260a.2		Discussion of the process to assess risks and opportunities associated with “tobacco harm reduction” products	Discussion and Analysis	n/a	49~54
FB-TB-270a.1	Marketing Practices	Total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices	Quantitative	KRW	47
FB-TB-270a.2		Description of the company’s marketing policy and relevant positions on Articles 11 and 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)	Discussion and Analysis	n/a	46~47

ACTIVITY METRICS

Code	Activity metric	Category	Unit of measure	Page
FB-TB-000.A	Combustible tobacco product sales volume: (1) cigarette, (2) cigar, and (3) other smoked tobacco products	Quantitative	Number, Metric tons (t)	8, 10, 42p of 2020 Business Report
FB-TB-000.B	Non-combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products	Quantitative	Number	51, 117

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KT&G TCFD Report



Classification	Recommended disclosures	Page
Governance	Describe the board’s oversight of climate-related risks and opportunities.	20
	Describe management’s role in assessing and managing climate-related risks and opportunities.	20
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	33
	Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	33
	Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	30, 34
Risk Management	Describe the organization’s processes for identifying and assessing climate-related risks.	7p of TCFD Report
	Describe the organization’s processes for managing climate-related risks.	7p of TCFD Report
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	7p of TCFD Report
Metrics and Targets	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	29, 30, 34, 113
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	33, 113
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	30, 34

# GHG EMISSIONS ASSURANCE STATEMENT

## Verification Target

Korean Foundation for Quality (hereinafter “KFQ”) has conducted the verification of “2020 Report on Quantity of emitted Greenhouse gas and Energy Consumption (hereinafter ‘Inventory Report’) for KT&G Corp.(hereinafter ‘the Company’)

## Verification Scope

KFQ’s verification was focused on all the facilities which emitted the greenhouse gas during the year of 2020 under the Company’s operational control and organizational boundary.

## Verification Criteria

The Verification is based on ‘Rule for emission reporting and certification of greenhouse gas emission trading Scheme (Notification No. 2018-73 of Ministry of Environment)’

## Verification Procedure

The Verification has been planned and conducted as the ‘Rules for verification of operating the greenhouse gas emission trading scheme’, and the level of assurance for verification shall be satisfied as reasonable level of assurance. And it confirmed through the internal review whether the process before the verificationconducted effectively.

## Verification Limitation

The verification shall contain the potential inherent limitation in the process of application of the verification criteria and methodology.

## Verification Opinions

Regarding to the data of the Greenhouse Gas Emission and Energy Consumption from the report through the verification, KFQ provides our verification opinions as below;

- 1) The Inventory Report has been stated in accordance with ‘Rule for emission reporting and certification of greenhouse gas emission trading Scheme’
- 2) The result of Material discrepancy satisfied the criteria for an organization that emits more than 500,000 tCO<sub>2</sub>-e shall not exceed 5% from total emission as per “Greenhouse Gas and Energy Target Management Scheme”
- 3) Thus, KFQ conclude that the Greenhouse Gas Emissions and Energy Consumption of the Company in 2020 is correctly calculated and stated in accordance with ‘Rules for verification of operating the greenhouse gas emission trading scheme’.

(unit : ton CO<sub>2</sub>eq)

Report Year	Emission of Scope1	Emission of Scope2	Total Annual Emission
2020	36,430.424	77,429.187	113,784

August 27<sup>th</sup>, 2021



Korean Foundation for Quality (KFQ)  
CEO Ji-Young Song

Ji Young Song

# INDEPENDENT ASSURANCE STATEMENT

We were engaged by KT&G Corporation (hereafter ‘KT&G’) to provide limited assurance on the ‘2020 KT&G Report’ (hereafter ‘the Report’) for the year ended December 31.

## Context and Scope

Our engagement was designed to provide limited assurance on whether the Report is presented fairly, in all material respects, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI). We do not provide any assurance on the achievability of the objectives, targets, and expectations of KT&G.

The scope of our engagement conforms to the KPMG Sustainability Assurance Manual™ (KSAM™), including the aspect of “materiality”. With regards to financial data, our procedures were limited to verifying that they were correctly derived from audited financial statements. To obtain a thorough understanding of KT&G’s financial results and position, the audited financial statements produced on 11 March 2021 should be referred to.

## Responsibilities

As stated in the ‘Reporting Principles and Standard,’ KT&G is responsible for all content within the Report in respect of the GRI Sustainability Reporting Standards. It is the responsibility of KT&G’s management to establish and maintain appropriate performance management and internal control systems from which the reported sustainability information is derived.

Our responsibility is to perform a limited assurance engagement and to express a conclusion based on the work performed.

## Independence

In conducting our engagement, we have complied with the requirements of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants. We do not engage in any, and all activities that may influence our independence from KT&G. KPMG has systems and processes in place to monitor compliance with the Code, and to prevent conflicts regarding independence.

## Assurance Standards

We conducted our engagement based on the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board, and also AA1000AS. The standards require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

## Limitations

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement, and consequently does not enable us to obtain assurance on all significant matters that we may become aware of in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion. This report has been prepared solely for KT&G in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than KT&G for our work, or for the conclusions we have reached in the assurance report.

## Main Assurance Procedures

Our engagement was designed to provide limited assurance on whether the Report is presented fairly, in all material respects, in accordance with the reporting criteria. Procedures performed to obtain a limited level of assurance on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the integrated report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included the following:

- Confirmation on whether the financial information presented in the Report was correctly derived from KT&G’s audited financial statements
- Inquiries to gain an understanding of KT&G’s processes for determining the material issues for key stakeholder groups
- Interviews with relevant staff at corporate and business unit levels responsible for providing the information in the Report
- Visit to KT&G’s offices in KT&G Tower and facilities
- Comparing the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, KT&G’s performance on non-financial value creation

## Opinion

### Stakeholder Inclusiveness

- KT&G operates communication channels with key stakeholders such as shareholders/investors, government, local communities, employees, partners, customers, media, and NGO.
- We are not aware of any key stakeholder group that has been excluded from dialogue in the Report.

### Sustainability Context

- KT&G has established a process to incorporate CSR in management’s decision-making and the business management plans of relevant teams, thereby securing continuity.
- We confirmed that KT&G recognizes general business management and social responsibility management comprehensively and applies such understanding within the Report.

### Materiality

- KT&G conducts a materiality test in determining material issues.
- We are not aware of any material aspects concerning its sustainability performance which have been excluded from the Report.

### Completeness

- KT&G’s applies reporting scope, boundary, and temporal criteria.
- In terms of criteria mentioned above, we confirm that the Report is suitable for stakeholders to assess social responsibility performance.

Based on the procedures performed, as described above, nothing has come to our attention to indicate that the Report is not presented fairly, in all material respects, in accordance with the reporting criteria.

August 2021

KPMG Samjong Accounting Corp. CEO **Kim, Kyo Tai**

*Kyo Tai Kim*



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# ASSOCIATION MEMBERSHIPS

Membered Associations	Purpose of Establishment
Korea International Trade Association (KITA)	KITA is a trade promotion institution that suggests relaxing regulations and issues in the field of trade to the government and assists collaborative activities of the private trade and commerce and establishment of trade infrastructure.
Korea Mecenat Association (KMA)	KMA is an institution that supports mutual development of the economy and culture by playing a role as a bridge between companies that assist culture & arts and cultural groups that performs creative activities continuously.
Korea Tobacco Association (KTA)	KTA is a private organization that has the 4 major tobacco companies of Korea as members. It pursues the society's fair and objective understanding of the tobacco industry by through the data collection and distribution of information about tobacco and contributes to sound development of the Korean tobacco industry and the public economy by promoting collaboration within the industry based on the fair infrastructure and responding to social environment in regard to tobacco products.
Korea Fair Competition Federation (KFCF)	KFCF implements its role as a bridge between the government and industry by enhancing private companies' understanding of the Fair Trade Scheme, creating an environment for voluntary fair competition, and proposing to the government regarding the Fair Trade Policy.
Korea Trade-Investment Promotion Agency (KOTRA)	KOTRA is a governmental investment institution established for contributing to the national economic growth by assisting promotion of trades, investment among domestic/overseas companies, and collaboration of industrial technologies.
Korea Industrial Safety Association (KISA)	KISA is a non-profit organization for the integrated safety & health consulting aimed to create an accident-free industrial society, and it efficiently executes various tasks for preventing industrial accidents.
Korea Environmental Preservation Association (KEPA)	KEPA is a public organization under the Ministry of Environment that executes investigation/research, R&D, training/promotion, and ecological restoration on environmental preservation in order to contribute to enhance the public life by maintaining pleasant environment.

2020 KT&G S-REPORT

IMAGINE  
A BETTER TOMORROW



# IMAGINE A BETTER TOMORROW






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### User guide for interactive PDF

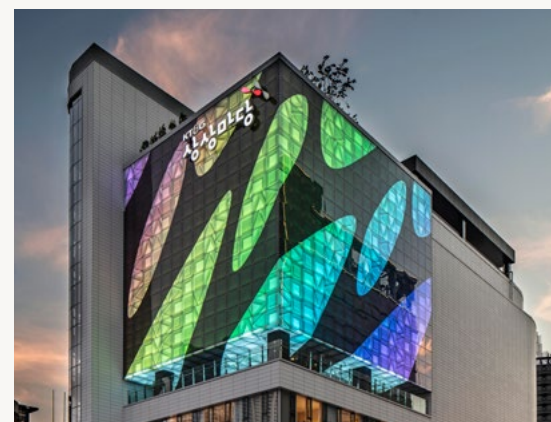
The KT&G S-Report was prepared in the form of interactive PDF to help users easily make access to each content and related information including website.

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#### Disclaimer

KT&G analyzed its value creation performances from social contribution activities in 2020 by adopting the “True Value” methodology, a global value measurement model of KPMG, in order to promote social contribution activities in a more systematic way. The results were presented with the tile of “Our Social Impact” on the gate page of each section. As the figures are offered to stakeholders for reference only, those cannot be used for the basis for investment judgment.



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KT&G's Director of Sustainability Management HQ & Vice President

Lee Sang Hak



KT&G has been conducting diverse social contribution activities to imagine a better tomorrow together with our stakeholders. Based on a sustainable social contribution system, we practice the philosophy of ‘Together Company’ to step ahead of social contribution.

2020 was a year in which everyone came together to achieve the social aspiration of overcoming the COVID-19 pandemic. KT&G promoted an emergency social contribution plan to overcome national disasters together. We took the lead in overcoming the COVID-19 situations by establishing a three-step contingency plan consisting of physical support such as emergency relief supplies, tailored support for the vulnerable in disasters, and mental support to change the stagnant social atmosphere.

Under the value system of 'Hope, Shared Growth, and Creativeness,' KT&G creates social values in various fields. Welfare and scholarship programs that provide 'hope' to the socially vulnerable group contribute to guaranteeing the universal value of living and education where a helping hand is needed. Furthermore, SangSang Madang and SangSang univ. aim to enable the artists and university students to express their 'creative' imaginations freely. And we play the role of 'shared growth' required as a corporate citizen by implementing activities such as youth startups, global CSR, and SangSang Fund.

To sustain these activities, KT&G started with the first-generation social contribution platform, which comprised the Welfare and Scholarship Foundation, followed by the second-generation platform, namely, SangSang

Madang, a complex cultural art space, and SangSang univ., a university student community. We strive to evolve with a third-generation platform that leads to SangSang Planet, a youth entrepreneurship support center.

Despite the COVID-19 pandemic affecting the current situation, we were able to create more excellent social value thanks to stakeholders' warm interest and support. Thanks to such support, we would like to show our stakeholders what KT&G has achieved and will continue to unfold. KT&G continues to think and communicate to create a better society. In addition to the activities shown in this report, we will faithfully fulfill our responsibilities as a 'shared corporate citizen' in more diverse fields, i.e., environmental protection.



# MILESTONES IN SOCIAL DISTRIBUTION

KT&G conducts various social contribution activities considering its core competencies and pursues Win-Win Growth through shared growth activities with suppliers to establish a basis for the growth of companies and society.



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01

## KT&G opens the Youth Startup Platform 'SangSang Planet' in Seongsu-dong

KT&G (President Baek Bok-in) opened 'SangSang Planet,' a space dedicated to youth startups. Located in Seongsu-dong, a mecca for social ventures, 'SangSang Planet' is a startup support center established for youth job creation and for entrepreneurs to communicate and grow.

'SangSang Planet' is an abbreviation for 'Let's Play&Network' and signifies a space for young entrepreneurs to meet, learn, and make an impact on changing the world. This space will be utilized to operate the youth entrepreneurship program 'SangSang Startup Camp' and will hold the social innovation startup forum 'SangSang Summit' in the future to expand KT&G's startup ecosystem. 'SangSang Planet' has an area of 4000m<sup>2</sup> from the basement to the eighth floor. The first to the third floor is open to the public, whereas the fourth and eighth floors are designated for the tenants.

The Connect Hall has a cafe and an area to hold events for any visitors on the first floor. The studios, editing rooms, and meeting rooms are laid out on the second floor. The 'Scale Up Room' on the third floor is set up for lectures and seminars.

From the fourth floor, 128 designated seats and 24 independent offices are set up for the tenants. The focus zones and phone booths are placed nearby to increase efficiency. Located on the eighth floor are the showers and refresh rooms to have a balanced work environment. KT&G plans to deliver the space optimized for startup growth at a reasonable price to minimize the economic burden of tenants.



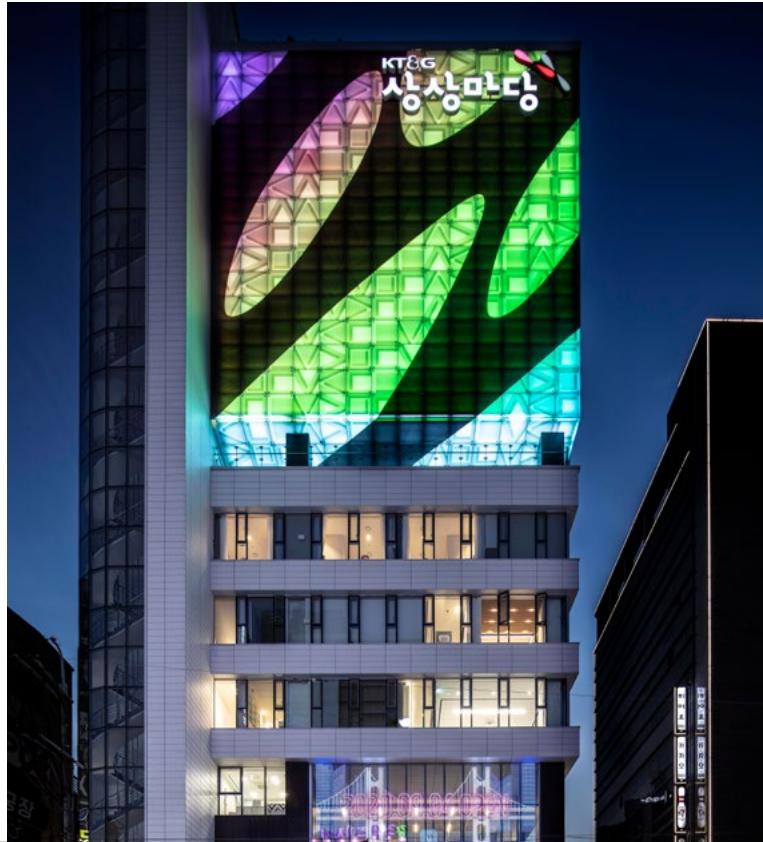
02

## KT&G Expands Cultural Contribution... 'SangSang Madang Busan' Opened

'KT&G SangSang Madang Busan' is opened in Seomyeon, Busan, on September 4 to strengthen support for the culture and arts and entrepreneurship ecosystem and expand opportunities for people to enjoy popular culture.

"SangSang Madang Busan" is KT&G's fifth multiplex cultural space. With 13 stories above the ground and five stories under the ground, it has a total floor area of about 20,000m<sup>2</sup>, making it the largest of the 'SangSang Madangs' currently in operation. From the 1st floor to the 5th floor, there are cafes, design stores, performance halls, and galleries based on the theme of 'play.' On the 5th and 6th floors, there are creative spaces for single-person media activists based on the concept of 'co-work' and spaces to support young entrepreneurs. The 7th to 13th floors are 'refresh' spaces where visitors can enjoy culture and relaxation with accommodation facilities, a CGV movie theater, and a rooftop garden.

'SangSang Madang Busan' will serve as a hub for supporting artists in various fields and communicating with young people in Busan.





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03

Realizing Shared-Growth Value by Implementing the COVID-19 Contingency Plan

KT&G has carried out various activities to overcome the ongoing COVID-19 situation. In March, we participated in the 'Helping Farmers Relay Campaign' held to support flower farmers facing difficulties due to various events and gatherings being canceled or reduced. In October, we joined to support 'The Snail of Love Transparent Mask Project' to help persons with hearing impairments who experience communication difficulties as wearing masks becomes a part of daily life to prevent infectious diseases. Moreover, we fulfilled our social responsibility as a global corporate citizen by donating 6,300 COVID-19 test kits to Indonesia and 7,600 to Russia and Turkey in May and June. We participated in the 'Love Snail Transparent Mask Project' to help the hearing impaired who have difficulties in communication by wearing masks to prevent infectious diseases.



04

KT&G Successfully Wraps Up the 3rd SangSang Summit and the 4th SangSang Startup Camp

KT&G successfully wrapped up "The 3rd SangSang Summit", an expert forum to facilitate the social venture ecosystem. This time, the "SangSang Summit" was streamed live in consideration of the COVID-19 situation in Korea. Five hundred individuals, including those who aspire to become social innovation-oriented entrepreneurs, joined the online forum and discussed the expansion of the social venture ecosystem. Also, a lecture was held on the topic of changing the perception of work among millennials and the future of the city they are aiming for. In February, 'THE DEBUT' was held to announce the achievements of the 4th participants of the 'Imagination Start-up Camp,' which is a youth start-up support project. In this 'The Debut,' 10 teams presented their business models and achievements prepared, and KT&G delivered a total of KRW 80 million to the five excellent teams.

05

Invites 'SangSang Friends' Managers for SangSang Univ.

The 4th SangSang Fashion Runway was held in the form of a fashion broadcast program pursuing non-contact and no spectators for the first time in SangSang Univ. The SangSang Fashion Runway is a culture and art program designed to create a dreaming stage for university students who wish to become fashion designers, which involves a sewing craftsman with 40 years of experience in Changsin-dong, who has led the domestic clothing and sewing industry nurturing them. The students who participated in the 4th SangSang Fashion Runway made costumes under the theme of 'Newtro in Their Twenties', and 36 male and female models wore their costumes on the runway. The SangSang Fashion Runway videos, which captured the lively and vivid moments of the fashion show, were uploaded on the official YouTube channel and gained great attention.



06

14 Years of Volunteering... Consistent Win-Win With Tobacco Leaf Farmers

In July, KT&G engaged in volunteer work in Mungyeong, North Gyeongsang Province, to help leaf tobacco farmers struggling with a lack of workers. Leaf tobacco farming is concentrated in the middle of summer, from July to August. It is difficult to mechanize, so it is highly labor-intensive, with most tasks performed manually. Farmers in Korea have been struggling to secure a sufficient workforce since the outbreak of the COVID-19 pandemic and the continuing decline of rural populations. KT&G has been engaged in volunteering every year since 2007 in order to alleviate the hardship faced by these farmers and has continued to maintain win-win relationships with farmers. This year, around 30 employees visited leaf tobacco farms in Gaeun-eup, Mungyeong-si, and volunteered to harvest about 4,000 kilograms of leaf tobacco across 3000 square meters of farmland.



# RESPONSE TO COVID-19

Social Impact from Response Activities to COVID-19

## Response to COVID-19

KRW **15.6** billion

KT&G has been engaged in solving problems through swift assistance whenever a national crisis has occurred, practicing the philosophy of ‘Together Company’ philosophy. In 2020, low-income earners faced aggravated difficulties due to the prolonged COVID-19 pandemic. Accordingly, KT&G made adjustments to its existing social contribution business plans to prepare for the prolonged COVID-19 outbreak and implemented activities that can provide practical help to domestic/overseas places by reviewing new support businesses. KT&G will closely monitor the status of COVID-19, thereby actively continuing activities for recovery.

## COVID-19 Contingency Plans



### Physical Assistance

#### Emergency supplies for those in self-quarantine and medical staff

In February 2020, when the COVID-19 pandemic was in its early stages in Korea, KT&G delivered an emergency grant of 500 million won to the National Disaster Relief Association aimed to provide food and quarantine items to self-quarantine and medical staff. In addition, along with its subsidiary KGC Ginseng Corporation, the company delivered ginseng products worth KRW 1.6 billion to field medical staff and related workers.

#### Reduced rental expenses of our buildings

We participated in the ‘Good Leaseholder Campaign’ to minimize the economic impact on the small businesses due to the COVID-19 outbreak. We supported approximately KRW 430 million in fixed rent reductions for individual business owners and tenants of small corporations renting twelve KT&G-owned buildings nationwide.



Relay campaign for helping flower farmhouses



Supporting transparent masks for communication with the hearing-impaired people

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Tailored Assistance

SangSang Sharing Lunchbox for Shared Growth with the Local Community

KT&G delivered the ‘SangSang Sharing’ lunchbox worth KRW 300 million to over 12,000 people to intensely support the local communities that have been directly affected by the COVID-19 pandemic. The ‘SangSang Sharing’ lunch box is a program that delivers a lunch box purchased in a local commercial area to each local welfare institution. All expenses required for purchasing the lunchbox were funded by the ‘SangSang Fund,’ which was donated directly by executives and employees.

Supporting Lip View Mask for the Hearing Impaired

As wearing masks has become a part of daily life to prevent infectious diseases due to COVID-19, the hearing impaired who communicate by looking at each other’s lips experienced difficulties. Accordingly, KT&G delivered 57,000 Lip View Masks worth about 100 million won that shows-through the lips even when worn to provide tailored assistance for the hearing impaired.

Supporting the Vulnerable Groups and Local Farmers\_Welfare Foundation

In order to strengthen support for the socially vulnerable group after the spread of COVID-19, the KT&G Welfare Foundation additionally delivered sanitary products, vitamins, and simple foods when delivering lunches to the elderly and provided easy-to-eat food, red ginseng products, masks, and hand sanitizers to local children's centers. (1.3 billion won). Also, in December 2020, KT&G prepared a package of agricultural products worth 1 billion won and provided it to 20,000 low-income households for shared growth with local farmers suffering from the prolonged COVID-19. (KRW 1.56 billion). (1.56 billion won)

Assistance of Scholarship and Online Learning Tools\_Scholarship Foundation

In June and October, the KT&G Scholarship Foundation provided a scholarship of 170 million won to 167 children of small enterprise owners in Daegu, Gyeongbuk, Seoul, and the metropolitan area, where the damage was most critical. Considering that the non-face-to-face educational environment has become a part of our lives in the aftermath of COVID-19, scholarships were provided to middle, high school, and college SangSang Scholarship students, along with online learning tools worth 150 million won, including tablet PCs.

Global Emergency Relief Activities

With the rapid spread of COVID-19 overseas, KT&G delivered over 14,000 domestic COVID-19 diagnostic kits worth 200 million won to Indonesia, Russia, and Turkey, where overseas branches sites are located, in order to fulfill its social responsibility as a global company and help overcome the crisis. Supported goods are immediately supplied to the front lines of medical sites, such as hospitals specializing in infectious diseases, and are used to prevent COVID-19.

We started building KT&G Indonesia Vocational Training Center worth about 300 million won in 2020 to help Indonesia's low-income families stand on their own feet, and it is planned to provide education at the Vocational Training Center from 2021. In addition, we provided learning materials worth 350 million won to Cambodia, where the learning environment is restricted due to COVID-19, to allow the students to continue learning in the COVID-19 situation.



Mental Assistance

Participating in ‘Helping Farmers Relay Campaign’

KT&G participated in the ‘Helping Farmers Relay Campaign’ held to help flower farmers struggling as various events are being canceled. President Baek Bok-in delivered a message of appreciation and support along with flowers to the employees ahead of the foundation anniversary and organized an event of delivering flowers to the family members of employees in May celebrating Family Month, which the members well received.

Family (食購) Campaign Together with the Executives

In April, KT&G operated an in-house campaign called the ‘Family’ program to revitalize the local economy stagnated by the COVID-19 outbreak and support domestic farmers. The ‘Family’ program contains the meaning of overcoming the COVID-19 pandemic by ‘eating’ and ‘purchasing’ being a family member. We purchased lunch boxes at a traditional market, served lunch to employees, and promoted and sold agricultural products to employees working with local farmhouses.

Cheering Badge Challenge & Contests

As more and more people complain of depression and the feeling of helplessness due to the spread of COVID-19, KT&G held the ‘Cheering Badge Challenge & Contest’ to energize the tiring daily life with laughter and support young people. The ‘Cheering Badge’ campaign was designed to convey a pleasant atmosphere and laughter by attaching a badge to a mask, and a badge design contest for university students and SNS relay support was held at the same time.

At-Home Class

Since 2010, KT&G SangSang univ., a platform for supporting youth cultural and artistic activities such as conducting band, musical, dance, and vocal classes in search of local youth, has actively introduced a non-face-to-face method after the spread of COVID-19 and continued its support activities. It runs an online live lecture, ‘At-Home Class,’ to allow the students to watch useful lectures such as cooking and dancing at home. The ‘SangSang Marketing School,’ established in 2010 to nurture competent future marketers, has also been converted into a non-contact program and is streamed live.

Hope Campaign Relay

KT&G participated in the ‘Hope Campaign Relay’ in May 2020. ‘Hope Campaign Relay’ is a national relay campaign that delivers messages of hope and support for overcoming COVID-19 in handwritten letters. We expressed our gratitude to the health authorities, medical staff, and volunteers and sent a message of respect to the people who do their best with a mature sense of citizenship in their respective positions.




Indonesian Medical Staff Support Campaign

KT&G Indonesia SangSang univ. conducted the ‘SangSang Semangat Challenge,’ a cheering campaign for Indonesian medical staff dedicated to reducing the damage caused by COVID-19. Like the meaning of Semangat, which means cheering in the Indian language, we supported through SNS and delivered red ginseng products (KRW 0.6 billion) to empower the medical staff.

# SOCIAL CONTRIBUTION FRAMEWORK

KT&G pursues social contribution activities that create a sustainable social ecosystem where the socially vulnerable group can stand on their own feet by fundamentally participating in resolving social problems rather than through unilateral charitable and charitable support. To this end, KT&G plans various social contribution programs through a platform with its core competencies.



Pursued Values	Platform	Main Business	Main Beneficiaries
<div><div><b>HOPE</b> We strive to distribute more opportunities and resources among social members who need help for a better tomorrow where everyone lives harmoniously.</div></div>	<div>Welfare Foundation</div> <div>Scholarship Foundation</div>	<div><div>• Low-income group support</div><div>• Welfare center support</div></div> <div><div>• Overseas relief</div><div>• Volunteering activities</div></div>	<div>Vulnerable social group</div>
<div><div><b>SHARED GROWTH</b> We operate business responsibly for a better tomorrow where we growth together with the society</div></div>	<div>Youth Start-up</div> <div>SangSang Fund</div> <div>Social Responsibility</div>	<div><div>• SangSang Planet</div><div>• SangSang Start-up Camp</div></div> <div><div>• Donation petition</div><div>• Donation Market</div></div> <div><div>• Global CSR</div><div>• Smoking environment improvement</div></div> <div><div>• Employee volunteering group</div><div>• Other public services</div></div> <div><div>• Tobacco farm support</div></div>	<div>Local community, stakeholders, youth/university students</div> <div>Vulnerable social group, local community, stakeholders</div> <div>Local community, stakeholders</div>
<div><div><b>CREATIVENESS</b> We assist new artists and university students to develop and show their capacities for creating a more creative and diverse cultural ecosystem.</div></div>	<div>SangSang Madang</div> <div>SangSang univ.</div>	<div><div>• Discovering new artists</div><div>• Culture &amp; arts-related education</div></div> <div><div>• Performances/exhibitions support</div></div> <div><div>• Culture &amp; arts program</div><div>• Job search assistance program</div></div> <div><div>• University students executives</div></div>	<div>Local community, New artists</div> <div>Youth/university students</div>

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# UN SDGS IMPLEMENTATION

United Nations (UN)’s Sustainable Development Goals (SDGs) are 17 goals that the UN and the international society need to accomplish by 2030 to solve global issues such as poverty, inequality, and environmental pollution and realize sustainable development. KT&G implements various activities to contribute to attaining SDGs as a global corporate citizen. KT&G plans to engage in solving international issues by conducting SDGs activities with integrity based on its resources and capacities.

SDGs	Targets	Main Activities
<div><div><div><div>1</div><div>NO POVERTY</div></div><div><div></div><div>No Poverty</div></div></div></div>	<div>1.3</div> <div>Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable</div>	<div>• Emergency living expenses for the low-income group</div>
<div><div><div><div>2</div><div>ZERO HUNGER</div></div><div><div></div><div>Zero Hunger</div></div></div></div>	<div>2.1</div> <div>By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round</div>	<div>• Hope Food Truck volunteering</div>
<div><div><div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div><div><div></div><div>Good Health and Well-Being</div></div></div></div>	<div>3.8</div> <div>Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all</div>	<div>• Assistance to patients in serious condition from the low-income group</div>
<div><div><div><div>4</div><div>QUALITY EDUCATION</div></div><div><div></div><div>Quality Education</div></div></div></div>	<div>4.1</div> <div>By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes</div> <div>4.3</div> <div>By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university</div> <div>4.a</div> <div>Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all</div>	<div>• Educational support to children of the low-income households</div> <div>• SangSang Scholarship holders</div>
<div><div><div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div><div><div></div><div>Decent Work and Economic Growth</div></div></div></div>	<div>8.3</div> <div>Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</div> <div>8.6</div> <div>By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value</div>	<div>• Improving domestic/overseas educational facilities</div> <div>• SangSang Planet</div> <div>• SangSang Start-up Camp</div>
<div><div><div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div><div><div></div><div>Industry, Innovation, and Infrastructure</div></div></div></div>	<div>9.3</div> <div>Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</div>	<div>• SangSang univ.</div>
<div><div><div><div>10</div><div>REDUCED INEQUALITIES</div></div><div><div></div><div>Reduced Inequalities</div></div></div></div>	<div>10.2</div> <div>By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</div>	<div>• Win-Win Growth Fund</div> <div>• Early payment to suppliers</div>
<div><div><div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div></div><div><div></div><div>Sustainable Cities and Communities</div></div></div></div>	<div>11.1</div> <div>By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</div> <div>11.2</div> <div>By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</div> <div>11.a</div> <div>Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning</div>	<div>• Discovering and supporting artists with disability</div> <div>• Improving residential environment for domestic/overseas low-income households</div> <div>• Providing vehicles to social welfare centers</div>
<div><div><div><div>15</div><div>LIFE ON LAND</div></div><div><div></div><div>Life on Land</div></div></div></div>	<div>15.2</div> <div>By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally</div>	<div>• SangSang Madang</div>
		<div>• Ecosystem restoration of Mt. Bukhan</div> <div>• Purification volunteering in Han River</div> <div>• Tree planting volunteering in Mongolia</div>

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# HOPE

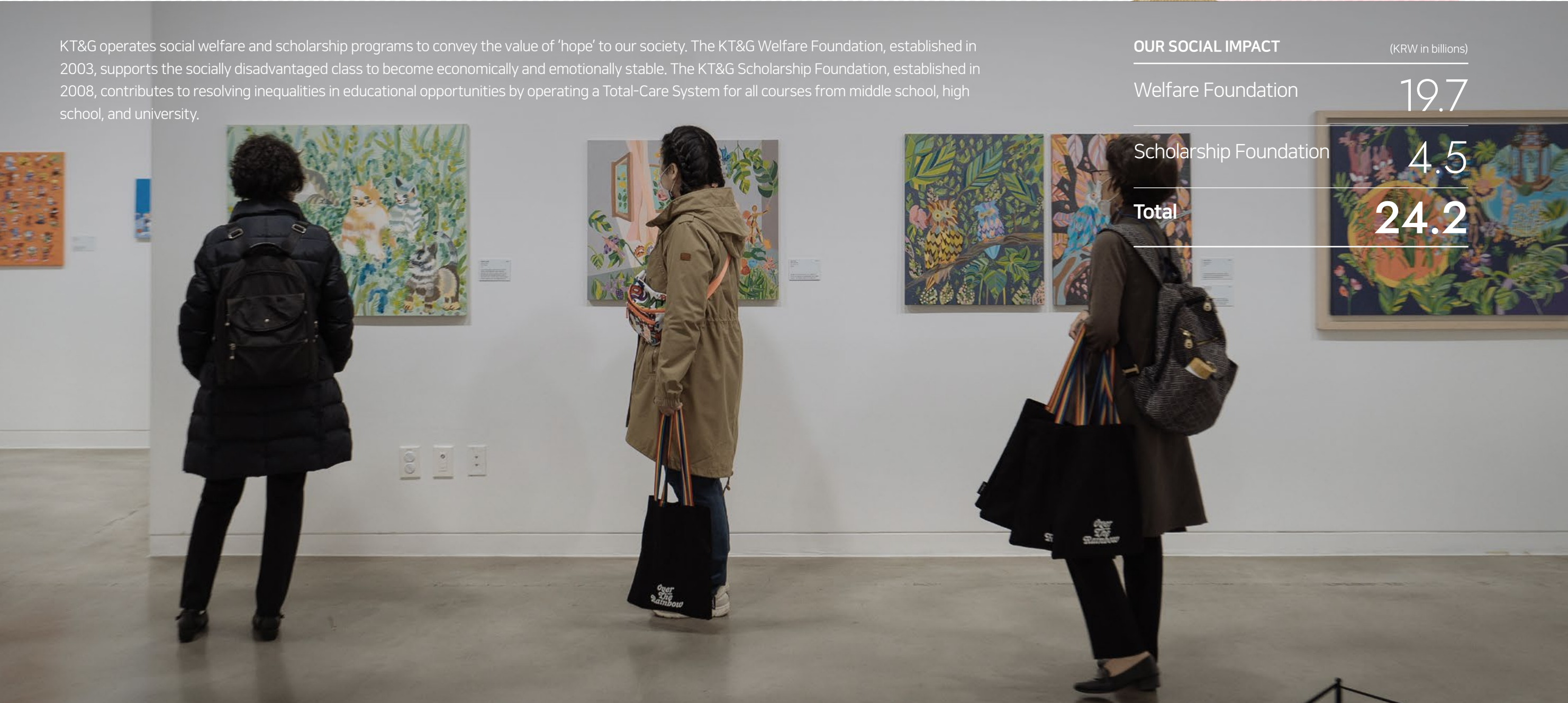
## S EEDS SOWED WITH 'HOPE'



KT&G operates social welfare and scholarship programs to convey the value of 'hope' to our society. The KT&G Welfare Foundation, established in 2003, supports the socially disadvantaged class to become economically and emotionally stable. The KT&G Scholarship Foundation, established in 2008, contributes to resolving inequalities in educational opportunities by operating a Total-Care System for all courses from middle school, high school, and university.

OUR SOCIAL IMPACT (KRW in billions)

Welfare Foundation	19.7
Scholarship Foundation	4.5
Total	24.2



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SangSang Fund

Social Responsibility

Global CSR Activities

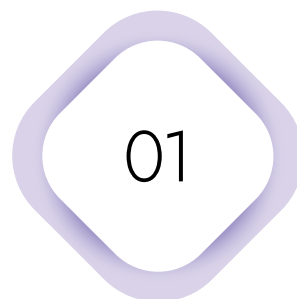
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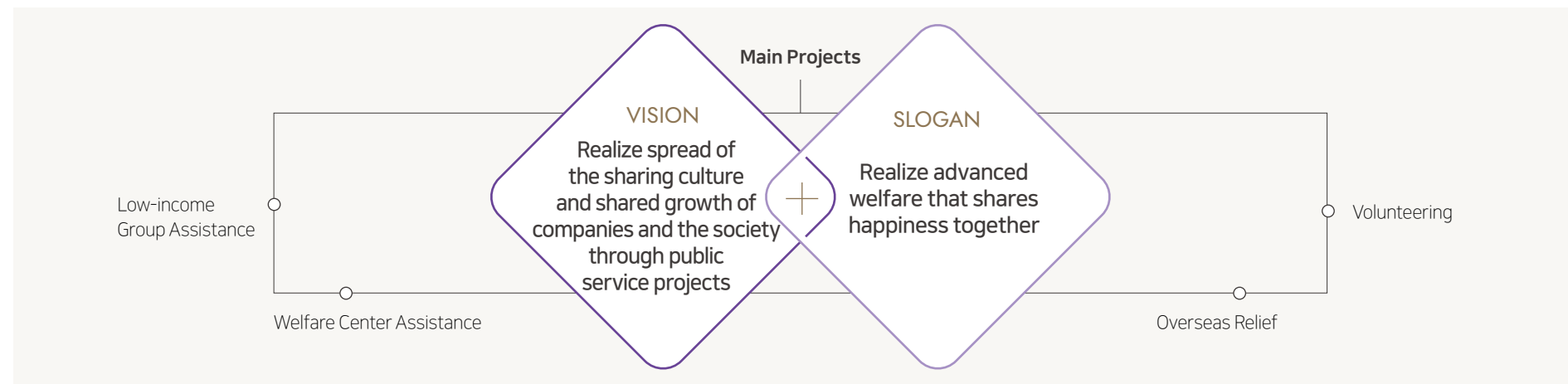
## WELFARE FOUNDATION

The goal of the KT&G Welfare Foundation is to 'realize advanced welfare that shares happiness.'

To this end, we strive to economically support and provide welfare institutions for low-income groups in need of social consideration, such as children, the elderly, and the disabled, while conducting emotional support projects such as music and art education to improve the standard and quality of life.



## Summary of Welfare Foundation



## SUPPORTING CHILDREN OF LOW-INCOME HOUSEHOLDS

We continue to support online education for music and art for children from low-income households in 452 regional children's centers across the country, supplying seasonal fruits every month to resolve nutritional imbalances in children and supporting books to improve learning ability. In 2020, we converted the existing offline cultural experience events into a non-face-to-face online cultural experience program to prevent the spread of COVID-19.



## VULNERABLE SOCIAL GROUP SUPPORT

We signed an agreement with major university hospitals across the country to support low-income patients in medical blind spots and started a project supporting medical expenses. Furthermore, we support the production and exhibition of disabled artists' works and deliver kimchi and heating expenses to low-income households every winter. For seniors, we conduct various projects such as the Senior Literary Award, Senior Table Tennis Competition, and events during national holidays/birthdays/Parents' Day to provide living and mental stability.



## VEHICLE PROVISION TO SOCIAL WELFARE CENTERS

The project of Vehicle Provision to Social Welfare Centers began in 2004, is a representative project of the KT&G Welfare Foundation. Considering the difficult social welfare situation in Korea due to the COVID-19 pandemic, in 2020, we increased the number of compact cars to 200 units, a 100% increase from the previous year. Our support cars are used for conducting support activities for the socially vulnerable group by the social welfare organizations, such as delivering lunchboxes to the elderly, contributing to the expansion of welfare projects in the local community.

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ACTIVATING THE VOLUNTARY ACTIVITIES OF UNIVERSITY STUDENTS

The KT&G Welfare Foundation has signed agreements with 50 voluntary university clubs and provided various support to expand university students' participation in voluntary activities. We strive to sponsor various seminars to facilitate volunteer activities and deliver supplies necessary for volunteer activities to spread the culture of volunteerism. In 2020, to prevent the spread of COVID-19, small groups worked on painting murals at elementary schools and volunteering to restore the Bukhansan ecology.



OVERSEAS RELIEF

The KT&G Welfare Foundation actively conducts overseas relief projects in areas in need of humanitarian. In Myanmar and Cambodia, our overseas relief activities are actively carried out to improve the educational environment for future generations, such as building elementary schools and libraries. In countries with weak health environments such as Vietnam, we contribute to improving medical services by constructing public health centers in poor areas. We also dispatch university student volunteer groups overseas for education and cultural exchange. Notably, in 2020, we supported 700 million won to build schools in Myanmar, and accordingly, about 1,200 local students could receive a stable education.



Main Performance in 2020

Support for children from low-income households



**9,102**persons  
No. of beneficiaries

**KRW 2.71** billion  
Amount of assistance

Support for Low-income households  
(Kimchi sharing, utility bill assistance, etc.)



**7,179**persons  
No. of beneficiaries

**KRW 2.21** billion  
Amount of assistance

Donation of vehicles to social welfare centers  
(accumulated)



**1,800**units  
No. of donated cars

**KRW 17** billion  
Amount of assistance

Overseas relief and volunteering



**KRW 0.9** billion  
Amount of assistance

Domestic university students' volunteering activities



**50**clubs  
No. of volunteering groups

**580**persons  
No. of participants



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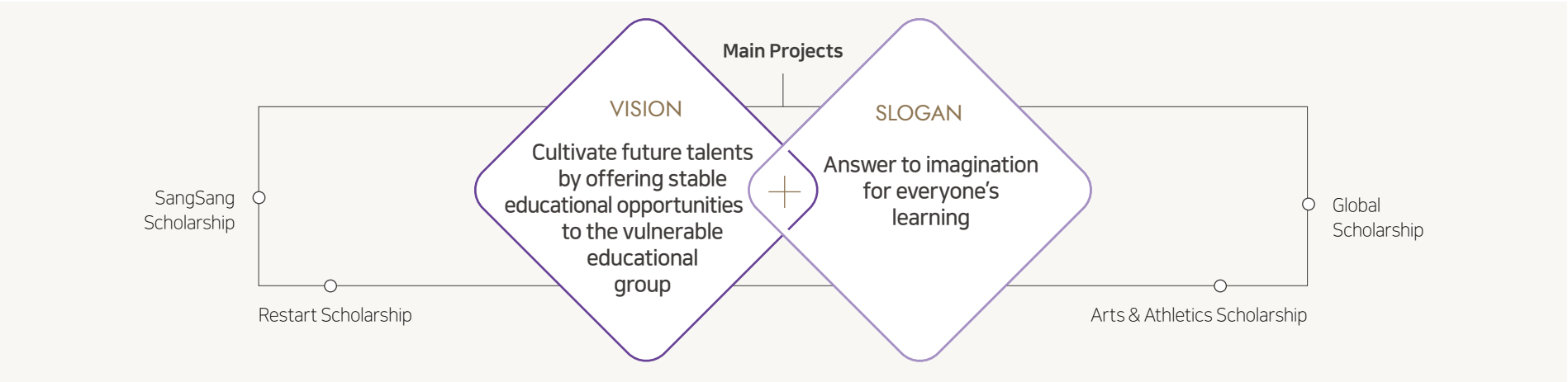


# SCHOLARSHIP FOUNDATION

The KT&G Scholarship Foundation carries out various projects to 'provide stable educational opportunities for the socially vulnerable group in education. While providing scholarships to the middle, high school, and university students from low-income households, we also assist those in special education environments such as arts and sports specialists, overseas university students, and those released from the Youth Detention Center. As a result, we expect talented students to continue pursuing their hopes even under challenging circumstances without giving up on their dreams of learning.



## Summary of Scholarship Foundation



### OCCASIONAL SCHOLARSHIP PROJECT

The KT&G Scholarship Foundation delivered scholarships worth 1 million won each to 167 children of small enterprises struggling with the increasing cases of infection with the COVID-19 in 2020. By strengthening practical support for small business owners, who are the most affected by the COVID-19 pandemic, we have contributed to preventing blind spots in the education support system.

### SANGSANG SCHOLARSHIP

The KT&G Scholarship Foundation selectively supports students from socially vulnerable groups with excellent academic abilities every year despite their financial difficulties. Furthermore, unless they have a reason for disqualification, we pursue a total-care method to provide scholarship benefits and learning opportunities continuously. The SangSang Scholarship is delivered annually at 1 million won for middle school students, 3 million won for high school students, and 4 million won for university students.

### RESTART SCHOLARSHIP

Since 2016, we have implemented the 'Restart Scholarship' project that supports the social independence of the youth living in childcare centers. In collaboration with the 'Korea Juvenile Protection Association (KJPA),' a public institution under the Ministry of Justice, we select recipients and provide educational expenses to promote the realization of the true independence of the youth in need of help. In 2020, we aided university admissions, general equivalency diploma (GED), and technical training to 61 juveniles from childcare centers.



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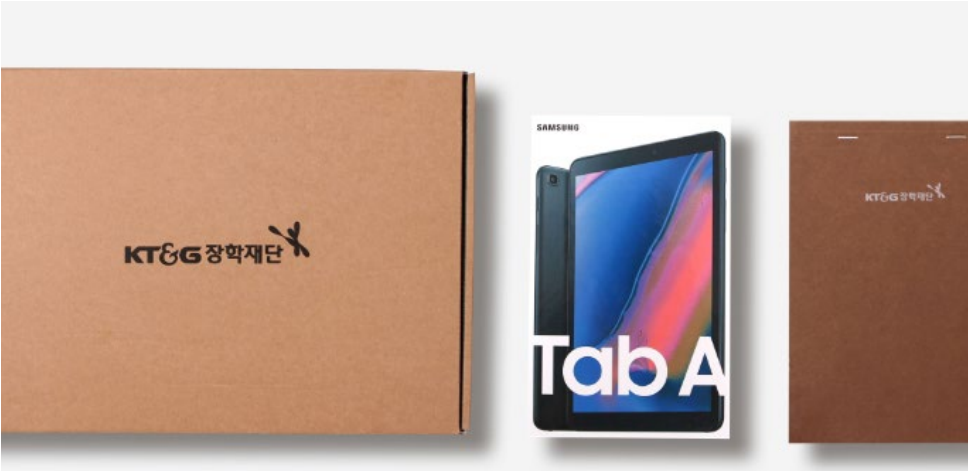
ARTS & ATHLETICS SCHOLARSHIP

The KT&G Scholarship Foundation promotes educational assistance for socially vulnerable groups, and the Arts & Athletics Scholarship discovers and supports talents in the arts and athletics areas. Selected talents specialized in arts and athletics are provided with a scholarship for career development such as competitions and lessons. In 2020, we expanded the existing scope of music and athletics to Korean Traditional Music, ballet, and drawing, and more outstanding talents received benefits.



LEARNING TOOL SUPPORT PROJECT

In 2020, we canceled all offline events due to the COVID-19 pandemic and supported tablet PCs to create non-face-to-face educational infrastructure for scholarship students of the socially vulnerable group, ultimately enabling them to smoothly participate in online school classes and strengthen their basic learning capabilities.



GLOBAL SCHOLARSHIP

The KT&G Scholarship Foundation launched the Global Scholarship Project in 2018 to fulfill its responsibility as a global corporate citizen. We provide scholarships to talents discovered from recommendations by local institutions such as universities, and a total of KRW 230 million worth of scholarships was given to 142 university students for three years.



Main Performance in 2020

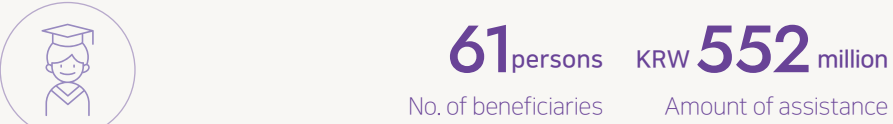
Occasional Scholarship



SangSang Scholarship



Restart Scholarship



Arts & Athletics Scholarship



Support for learning tool support project



Global Scholarship





# SHARED GROWTH

FRUIT BECAME THROUGH 'SHARED GROWTH'



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KT&G perceives the society of 'shared value' as an essential value and strives to create social value by growing together with the company and the local community. The 'Youth Startup Support' project provides a foundation for young people to dream of the future and provides funds to those in need in society with the 'SangSang Fund,' which was donated directly by executives and employees. We perform active and broad social contribution activities and also provide help overseas through systematic global CSR.

OUR SOCIAL IMPACT	(KRW in billions)
Youth Startup	21.0
SangSang Fund	4.1
Social Responsibility	5.4
Global CSR activities	2.3
Shared Growth	74.6
Total	107.4





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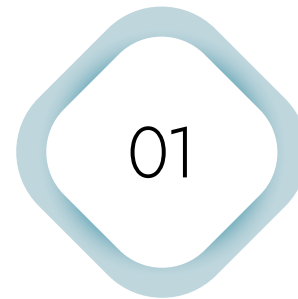
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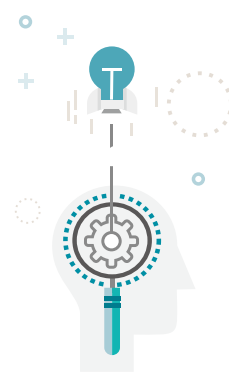
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## YOUTH STARTUP

KT&G operates various social contribution projects to assist entrepreneurs who aim to realize their imaginations. 'SangSang Start-up Camp' is a practical start-up course that solves social issues through business, and it focuses on Early Incubating that discovers and cultivates social innovation entrepreneurs. Moreover, we hold the 'SangSang Summit,' an expert forum for enhancing the interest and participation of stakeholders in social innovation. Furthermore, we opened 'KT&G SangSang Planet' in July by focusing on establishing a youth start-up support center for more active project implementation.



## Summary of Youth Start-up

Performance of SangSang Startup Camp Operation (1<sup>st</sup> ~ 5<sup>th</sup> section, accumulated)

## SANGSANG START-UP CAMP

The KT&G Sangsang Start-Up Camp is Korea's first full-time social innovation startup program designed to support young people who dream of establishing a social venture. With its successful accomplishment of the 5th stage, the SangSang Start-Up Camp has produced prominent social venture startups, and about 36 teams are selected in the 'social entrepreneur fostering project' conducted at the national level, taking the lead in revitalizing the social economy.



## 2020 Performance of SangSang Summit



## SANGSANG SUMMIT

KT&G SangSang Summit is an annual social innovation expert forum to revitalize the social venture ecosystem. The 3rd SangSang Summit was held in 2020. We had the opportunity to share the stories of city makers in Seongsu-dong with the theme of region and space and the keyword of area and city for social innovators. The 3rd SangSang Summit, held non-face-to-face for the first time to prevent the spread of COVID-19, had been a place better to understand the social venture ecosystem with about 500 participants.

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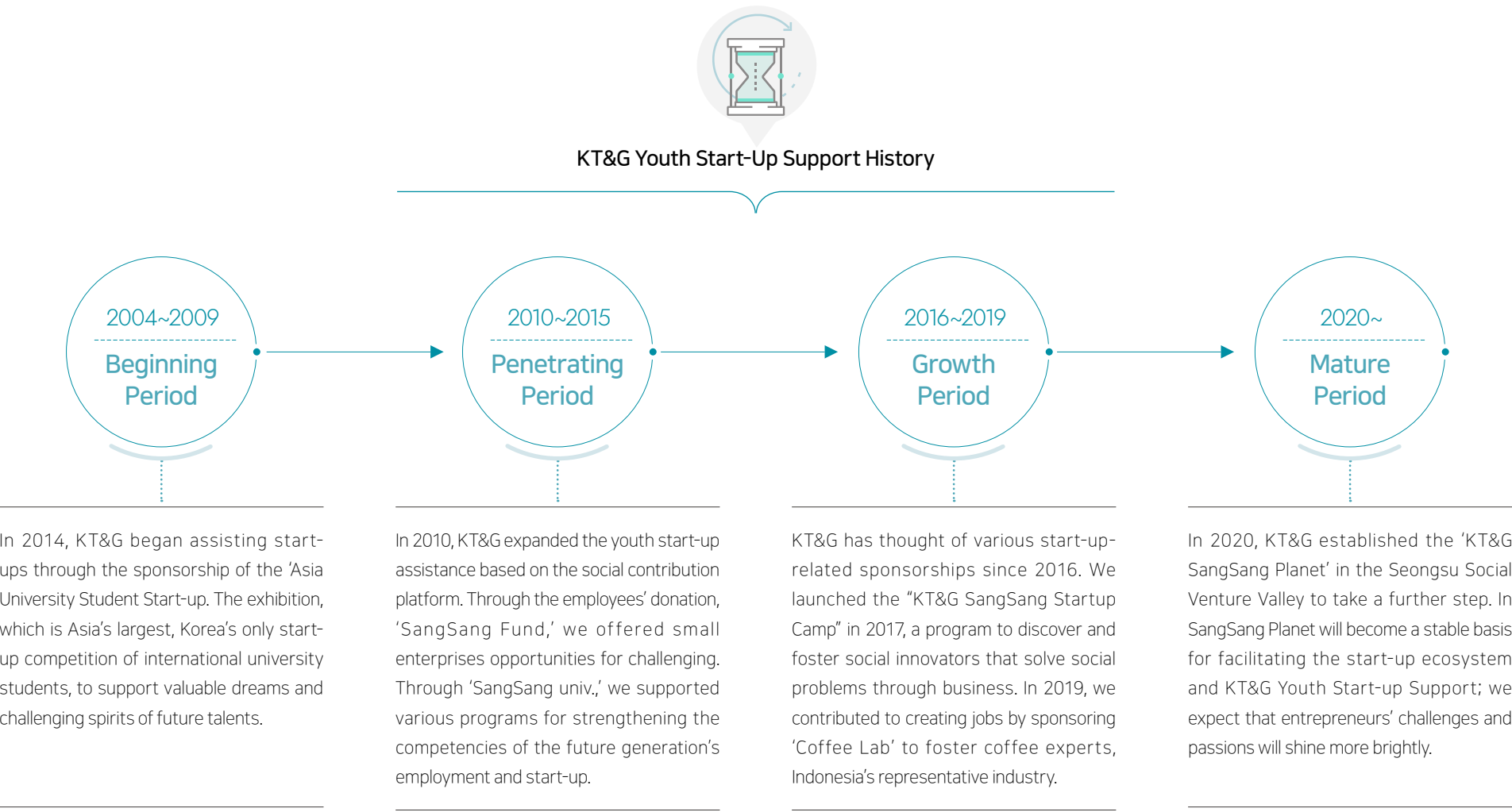
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KT&G SangSang Planet

Establishment Background of KT&G SangSang Planet

With the first support of sponsoring the 'Asia University Student Start-Up Exhibition,' the world's only and largest international university student start-up competition in Asia in 2004, KT&G has been supporting youth entrepreneurship and job creation. Since 2017, we have been running the 'KT&G SangSang Start-Up Camp' to discover and nurture socially innovative start-ups in earnest. The 'KT&G SangSang Planet' for early entrepreneurs was established with our understanding and experience of youth entrepreneurship accumulated over a long period of time. We will further develop more influential start-up support activities in this special space.





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Introduction to SangSang Planet

KT&G SangSang Planet is a social venture-oriented start-up support space where social innovation entrepreneurs can grow. It is an open incubating platform with a total floor area of about 4,000 m<sup>2</sup> and is divided into an open space that can be used by anyone and an exclusive space for tenant companies centered on social ventures. The 1st to 3rd floors consist of a connect hall, cafe, co-working lounge, and lecture hall where various events are held, and the 4th to 8th floors have reserved areas and independent offices for tenants, a focus zone and phone booth to increase work concentration, business support space, a refresh area for relaxation.

Programs for SangSang Planet Members



Scale-up Education



Scale-up Program

- Growth Support Education** | As an educational program aimed to help strengthen the members' practical and business competencies, it is comprised of lectures helpful in business practice discovering topics that teams at the beginning of the start-up find challenging through 1:1 meeting.
- Planet Pop-Up** | We have the space on the first floor as a dedicated pop-up exhibition zone to help the early-stage start-up teams in public relations and marketing activities by taking the geographical advantage of its location in Seongsu-dong with high liquidity and easy access for anyone.
- Planet Benefit** | Planet Benefit is a program that provides the necessary services to Planet members, who are the initial team, in partnership with 18 partner members. We support Planet members to focus on growth through partnership services in various fields such as professional education/delivery service.



Welcome to SangSang Planet



Bing Bing Hour



Play & Network Program

- Welcome to SangSang Planet** | This is an on-boarding program for new members. We introduce the space and usage methods so that new members can quickly adapt to SangSang Planet.
- Full Moon Party** | As a networking program that enables the formation of synergy among Planet members, we seek ways for early entrepreneurs to interact, share ideas, and collaborate.
- Bing Bing Hour** | This is a program that supports Planet members to form healthy leadership and organizational culture. We provide a variety of benefits, such as health promotion programs and stress management programs, so that Planet members can enjoy their lives.

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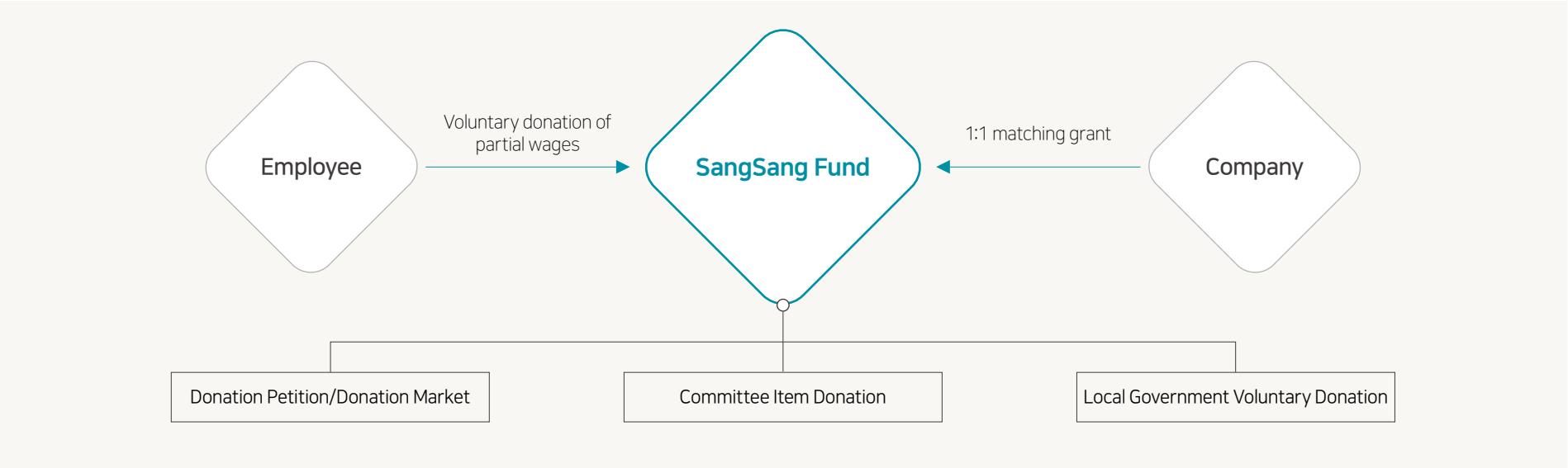
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02  
SANGSANG FUND

KT&G SangSang Fund, launched in 2011, is a platform for employee’s voluntary donation, which is used to support the socially vulnerable group and solve urgent social problems. SangSang Fund's cumulative donation amounted to approximately KRW 31.9 billion in 2020, and more than 90% of its employees are participating.



Summary of SangSang Fund



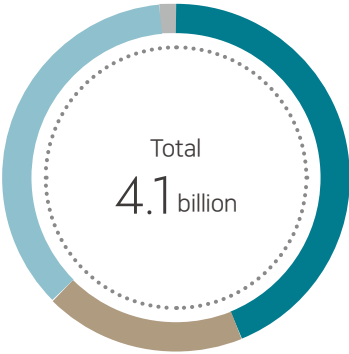
Raising and Operation of SangSang Fund

SangSang Fund is raised from employees’ voluntary donations of their partial wages and the company’s 1-to-1 matching grant. The fund is executed transparently through deliberation, and decision making of the SangSang Fund Operational Committee, composed of 11 employee delegates, and is used for medical care, education, and livelihood support for the socially disadvantaged through donation petitions and donation market programs. Also, we contribute to solving social problems that require public-private cooperation through committee agenda resolution and voluntary donations to local organizations. Using the SangSang Fund, we donated about KRW 4.5 billion in 2020 and KRW 31.9 billion cumulatively.

Emergency Relief in Areas Affected by Flood

In August 2020, human life and facilities were damaged due to nationwide heavy rain. There was considerable damage, including 30 deaths and missing people, 3,000 victims, and over 6,500 facilities destroyed. To resolve national disasters and fulfill social responsibilities, KT&G raised KRW 250 million using the SangSang Fund, which was prepared through voluntary donations from employees and delivered to the National Disaster Relief Association. The donation was granted and paid as compensation for the victims depending on the degree of damage.

Raising and Execution of SangSang Fund in 2020



■ Committee	KRW 1.8 billion	43%
■ Donation Market	KRW 0.8 billion	18%
■ Local Institutions	KRW 1.4 billion	35%
■ Donation Petition	KRW 0.1 billion	1.5%



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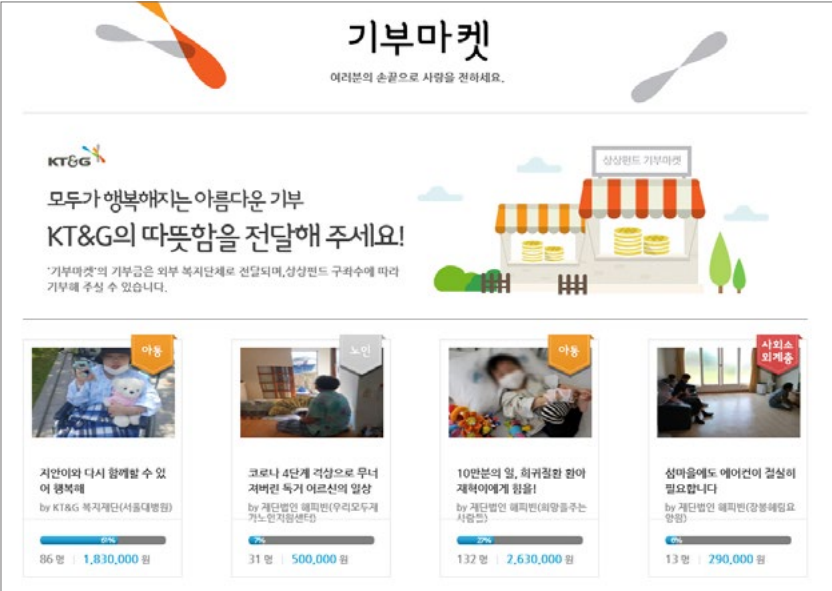
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Donation Petition

Donation Petition is a system in which employees directly look for stories of socially vulnerable people in a difficult situation and the blind spot of welfare and provide assistance when there are more than 200 comments to support the story. We offer a wide range of benefits in various fields, such as medical support, improving the residential environment, and education.

Performance in 2020



Donation Market

Donation Market is a system where employees can directly donate to stories received through various channels such as NAVER's Happy Bean, Welfare Foundation, and stories recommended by local institutions. There are various stories related to overseas relief, environment, medical care, and the elderly, and we support the story's subject by matching half the amount of support.

Performance in 2020



SangSang Fund Operation Committee

SangSang Fund Public Offering

Under collaboration with Happy Bean, a foundation running the Donation Market, we carried out a 'SangSang Fund Support Project Contest' to support the socially vulnerable group. Two hundred twenty-three welfare institutions applied for the project, and 21 organizations were screened and selected for support by the SangSang Fund Operation Committee, which consists of KT&G employees. We also received cheering and support messages from about 70,000 netizens through the 'Public Offer Campaign' page introducing KT&G SangSang Fund and supporting projects.

Performance in 2020





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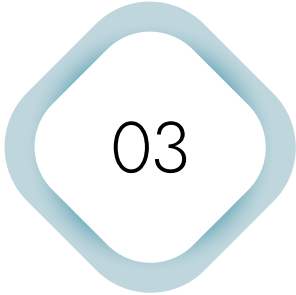
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# SOCIAL RESPONSIBILITY

KT&G is strengthening its social responsibility to create a better future where we live together in harmony. We are devoted to sharing happiness with everyone by gradually expanding the scope of voluntary activities, including employee's voluntary activities nationwide, protecting the environment, supporting the socially vulnerable group in the local community, improving the smoking environment, and supporting medical research.



## Kimchi and Winter Supplies for the Vulnerable Group

At the end of 2020, we delivered sharing of kimchi and winter supplies for the socially vulnerable group in each region who would go through harsher winter due to the COVID-19 pandemic. Mainly, we supported 13 welfare institutions in 5 areas where KT&G is located, and the main winter supplies were kimchi, briquettes for heating and heating oil. We donated KRW 300 million to the year-ending event, including KRW 70 million in Gimcheon, KRW 110 million in Yeongju, and KRW 85 million in Cheonan.

## SangSang Together Employee Volunteering Group

SangSang Together Employee Volunteering Group is divided into 20 institutions and 158 volunteering groups nationwide. In addition to labor services for the socially vulnerable group, such as food offering and house repair, we are expanding our scope to environmental purification, helping leaf tobacco farmers, and supporting flood damage victims. In 2020, there were restrictions on volunteering activities due to the COVID-19 outbreak; in 2021, 25 executives and employees of the Busan Headquarters carried out marine environment cleanup activities at Songjeong Beach on July 2, and 10 members of the SangSang Fund Steering Committee on July 29 along the coast near the Busan area. We engaged in beach cleanup activities, such as collecting various garbage, including plastic washed ashore, underwater cleanup activities to collect waste in the water, and holding a junk art exhibition using the collected garbage. On September 10, on International Coastal Cleanup Day, we plan to carry out cleanup activities with 25 university student volunteers.

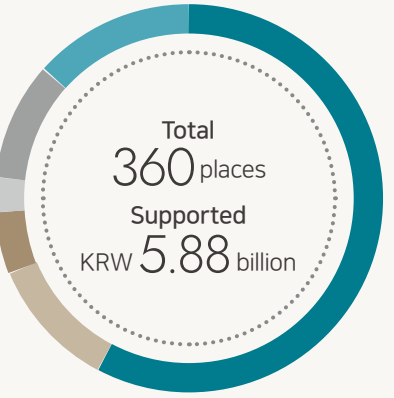
## Smoking Environment Improvement Project

KT&G is actively fulfilling its business-related social responsibilities utilizing its core competencies. With diverse activities to create a social culture where smokers and non-smokers can coexist, we focus on installing smoking rooms in public facilities. To resolve social conflicts caused by the lack of smoking space as the number of non-smoking areas increases, we installed smoking rooms in transportation facilities such as airports and train stations and distribute smoking etiquette posters and campaigns with picograms on smoking etiquette.

## Support for Preventing Juvenile Smoking

KT&G is sponsoring a juvenile smoking prevention campaign to fulfill its product-related responsibilities. In cooperation with Seoul National University Hospital, we study juvenile stress management and produce smoking prevention education contents to be used in schools and public health centers.

## Installation of Smoking Rooms by Public Facilities Nationwide in 2020 (accumulative)



Highway rest area	189
Airport	44
Railway station	24
Bus terminal	12
Public institution	35
Others	56



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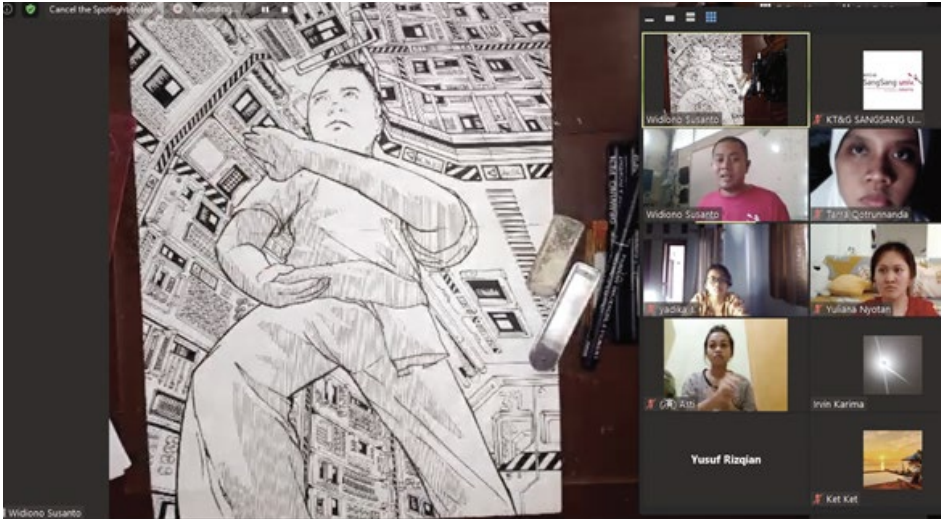
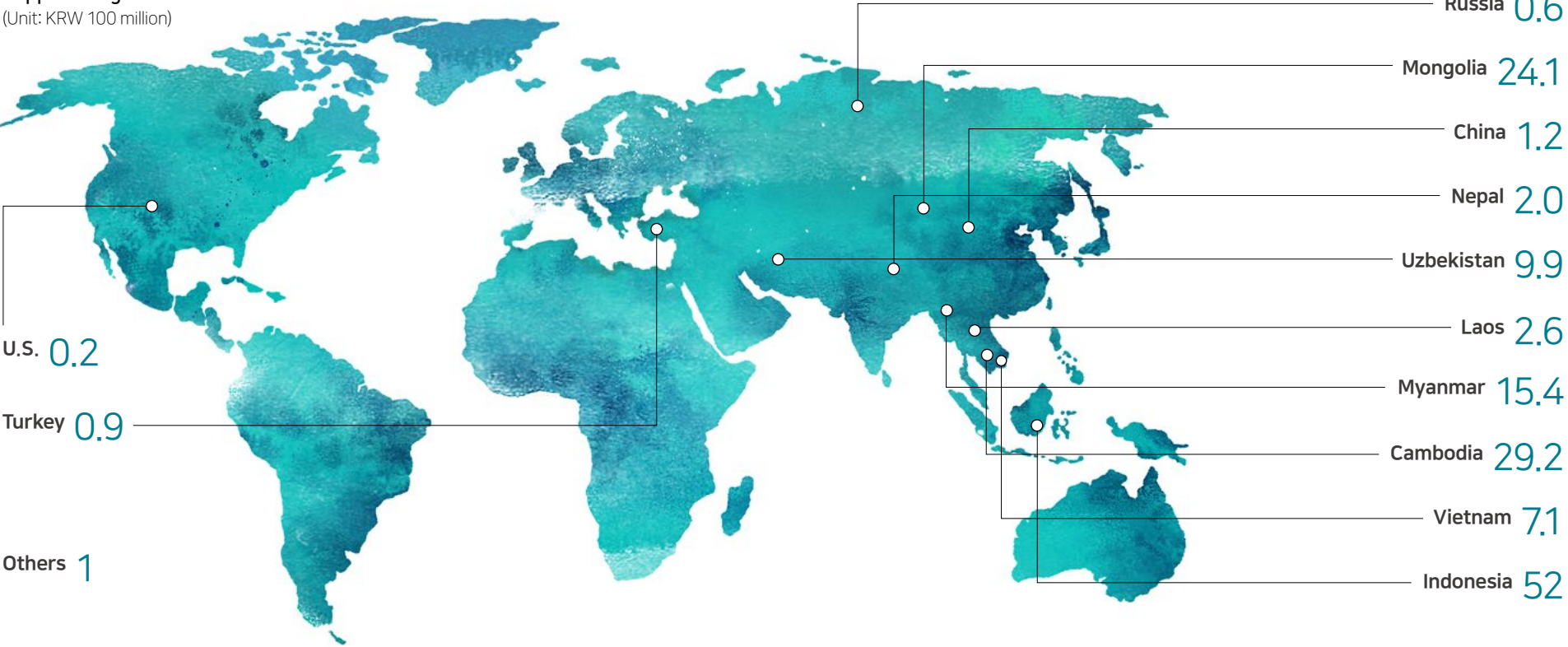


# GLOBAL CSR ACTIVITIES

With the expansion of our global business, KT&G has systematically established mid-to-long-term strategies to fulfill its social responsibilities as a global corporate citizen. Significantly, Indonesia has the most extensive business scale among the countries we entered and symbolizes global business expansion. Accordingly, we perform various social contribution activities in Indonesia to fulfill our corporate social responsibilities, forming a trusting relationship with residents and laying the foundation for growth together with the local community. We also perform our CSR activities in major business countries such as Turkey and Russia.



Support for global CSR activities as of 2020  
(Unit: KRW 100 million)



SangSang Univ. online education



Culture event at Korean language school in Surabaya



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KT&G SangSang Univ. Indonesia

KT&G operates Sangsang univ. in Jakarta and Surabaya to help the Indonesian university students to enhance cultural knowledge and help them grow. In Jakarta, we provide a variety of experiences and exchange opportunities along with classes such as culture and arts, hobbies, and career development that local university students are not generally exposed to. In contrast, in Surabaya, we run the Korean language school relocated from Jakarta in March 2020. Considering the COVID-19 situation, we switched all the programs to online for safe operation. The KT&G SangSang univ. Indonesia expects the local university students to discover their potential and grow into talented people who contribute to the country and society through various cultural events and community development programs.

Indonesia Coffee Lab Sponsorship and Vocational Training Center

KT&G developed a social contribution platform of a newly evolved model to contribute to activating Indonesia's economy. Coffee Lab, a vocational school for coffee established in 2019 under the collaboration with the Indonesian Ministry of Economic Coordination and International Relief and Development NGO to foster the coffee industry and create jobs for young people, provided training for coffee experts, including international certification courses, to 101 people based on two learning centers, and contributed to improving Indonesia's industrial competitiveness based on the creation of a healthy coffee industry ecosystem. In addition to Coffee Lab, KT&G is building a sewing vocational training center in the Malang area to strengthen the foundation for the socially vulnerable groups in the local community to stand on their own feet and is scheduled to open in March 2021.



Support for recovering earthquake damage in Turkey



Coffee Lab class



Delivery of COVID-19 diagnostic kit to Indonesia

Global Disaster Relief

KT&G has continued its effort to disaster relief to resolve global crises. In 2020, we could not dispatch overseas volunteers due to the COVID-19 outbreak, but we delivered medical supplies to prevent the spread. Notably, in May 2020, when the early diagnosis of COVID-19 was crucial, KT&G donated 13,900 Korean COVID-19 diagnosis kits (worth 200 million won) to Indonesia/Russia/Turkey. Also, we delivered an emergency donation of 50 million KRW to our employees in the earthquake in Izmir, Turkey, fulfilling our social responsibility as global corporate citizens.

Educational Support in Laos

Kampanye-KT&G School in Laos, established by KT&G, celebrated its 1st anniversary in 2020. With continued interest and support for the school, we wanted to send an employee volunteer group to commemorate the 1st anniversary of the school, but due to the prolonged COVID-19 situation, we alternatively decided to sponsor products. KT&G delivered arts and sports teaching aids for quality education and hygiene products for healthy living in developing countries and expects Kampanye-KT&G School to become a key pillar in nurturing Laos talents.



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HOPE: SEEDS SOWED WITH 'HOPE'

- Welfare Foundation
- Scholarship Foundation

SHARED GROWTH: FRUIT BECAME THROUGH 'SHARED GROWTH'

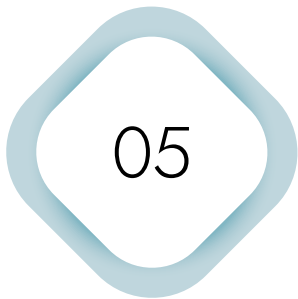
- Youth Start-up
- SangSang Fund
- Social Responsibility
- Global CSR Activities

→ Shared Growth

CREATIVENESS: A TREE GROWING WITH 'CREATIVENESS'

- SangSang Madang
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# SHARED GROWTH

With the goal of pursuing the value of shared growth with leaf tobacco farmers, which are major sources of our raw materials, KT&G runs a variety of shared growth systems, including financial support for stabilizing leaf tobacco production, as well as activating communication channels and volunteering to help farmers.



## Supporting Leaf Tobacco Farmers to Create Additional Income

KT&G operates the Hae-ah-rin project to help cultivate and sell red peppers allowing leaf tobacco farmers to obtain additional income by using resources such as farmland and technology. In 2020, we signed a contract with 21 farmers to purchase dried red peppers worth KRW 295 million.

\* Hae-ah-rin: A project to assist cultivation and sales of red pepper in supporting leaf tobacco farmers

Performance in 2020



## Purchasing the Entire Leaf Tobacco from the Farms

KT&G purchases the entire leaf tobacco from domestic farms to create shared value with farms and uses them for manufacturing the product. In 2020, we purchased about 770 tons of leaf tobacco worth 74 billion won and planned to purchase about 8,000 tons of domestic leaf tobacco in 2021.

Performance in 2020



## Shared Growth with Leaf Tobacco Farmers

KT&G is providing support in various fields for coexistence with leaf tobacco farmers. We pay 30% of the scheduled leaf tobacco purchases in advance from April to May at no interest (the balance is paid from September to December after harvest) and provide annual health medical examination expenses and children's education funds to promote the welfare of the farm members. Moreover, our employees actively participate in volunteer activities during the planting and harvesting seasons when there is a shortage of workers. In 2020 and 2021, we supported consolation funds to recover leaf tobacco farms damaged by natural disasters quickly.

Performance in 2020 (cumulative)



## Low-interest Loans to SMEs

To revitalize the local economy and create jobs, KT&G has signed an Agreement for Shared Growth with IBK Industrial Bank of Korea to provide low-interest funds to companies located in Chungcheong Province. Through the agreement, KT&G deposited 100 billion KRW in IBK and created a 200 billion KRW fund accordingly, which is used to support loans at interest rates lower than the market interest rate to companies operating in five fields: start-ups in Daejeon, Sejong, and Chungcheong-do, small business owners, and medical care.

Support from the Shared Growth Fund in 2020





# CREATIVENESS

## A TREE GROWING WITH 'CREATIVENESS'



KT&G actively supports creative young writers and artists to ensure that anyone can easily access and enjoy culture and art values. 'SangSang Madang,' an open cultural space, enables creators to fully express their imagination and talents and the general public to experience the world of young and fresh culture and art. 'KT&G SangSang univ.' has positioned itself as Korea's No. 1 university student community and provides a foundation for university students, who will become leaders of the future, to learn and interact with each other in various fields such as culture, art, and career, and open up new futures and possibilities.

OUR SOCIAL IMPACT	(KRW in billions)
SangSang Madang	48.0
SangSang Univ	3.1
Toal	51.1

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Youth Start-up

SangSang Fund

Social Responsibility

Global CSR Activities

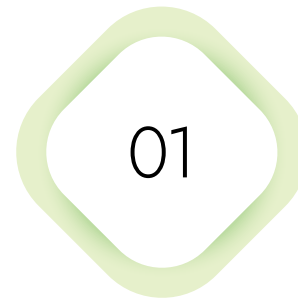
Shared Growth

## CREATIVENESS: A TREE GROWING WITH 'CREATIVENESS'

→ SangSang Madang

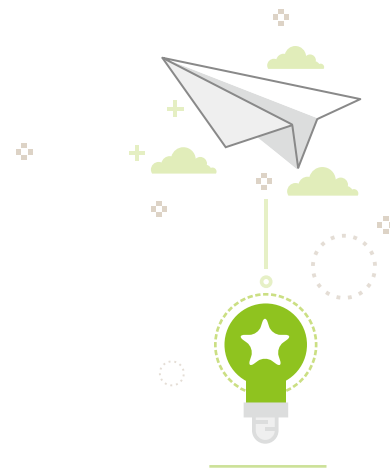
SangSang univ

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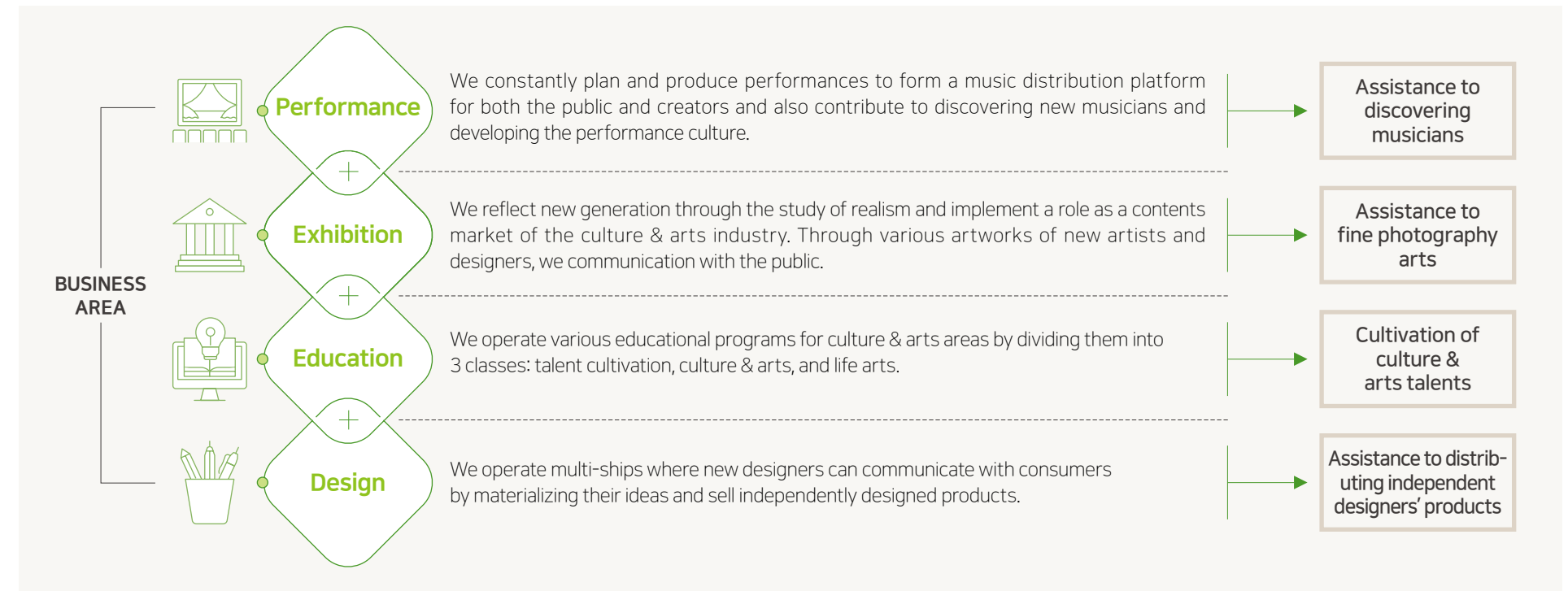


## SANGSANG MADANG

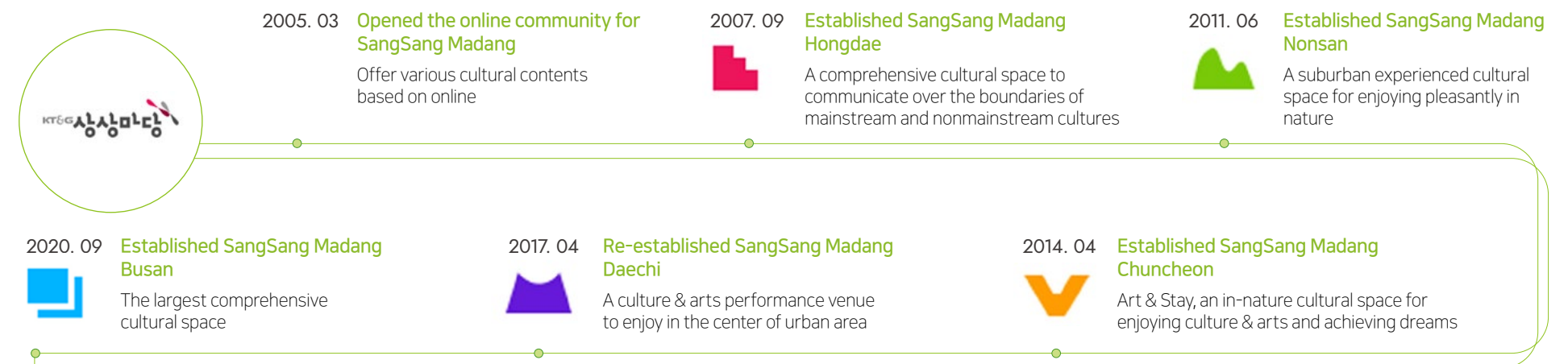
SangSang Madang is Korea's leading comprehensive culture & arts space that operates various programs such as performance, exhibitions, festivals, experience, and education, which strives to build a cultural ecosystem through practical communication-oriented operations differentiated from general corporate cultural activities.



### Summary of SangSang Madang



### SANGSANG MADANG HISTORY





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Over the Rainbow



Artist Hyo-yeon Kim's solo exhibition of the year

Creating a National Cultural Belt to Strengthen the Influence of SangSang Madang

KT&G SangSang Madang endeavors to let many artists imagine more. Starting with SangSang Madang Hongdae, to Chuncheon, Nonsan, and Daechi. And even to Busan. KT&G spares no active support to places in need of culture and art. The dream of creating a national cultural belt for new cultural and artistic values to bloom. This is what SangSang Madang tries to make come true.

Audience and Artist-customized Performance Program

The SangSang Madang performance project builds a variety of platforms where the public and musicians can communicate more closely by planning performances, supporting artists, and operating a performance venue to establish itself as the center of the musician's network through new attempts. Under the collaboration with Radio Gaga TV for an online streaming service made it easier for the public to access the SangSang Madang performance program. Furthermore, step-by-step support is provided considering what kind of support an artist needs from the artists' viewpoint. It runs customized support programs to practically provide the rising artists' stage, public relations support for rising artists, and opportunities for a review and solo performances for existing artists. Furthermore, it plans/runs various programs such as <Band Discovery> to give audiences opportunities to meet various artists.

Exhibition Projects for Rising Artists to Shine

Various exhibitions and visual art workshops create new values in the world culture and art in Korea by giving the audience a familiar approach to art and presenting a discourse on contemporary art to artists and supporting their work.

The 12th SKOPF Exhibition to Discover Professional Photographers

Even when the world stopped due to the COVID-19 pandemic, we did not stop our support activities for culture and arts. SKOPF, which has supported exhibitions by professional photographers since 2008, selected three finalists from the 12th Application Contest and held a collaborative exhibition with the Goeun Museum of Art. Meanwhile, Artist Hyoyeon Kim, who was selected in 2019, has received numerous awards and attention internationally, being selected as one of the ten finalists in the 'Prix VIRGINIA' in 2020.

The 3rd Over the Rainbow to Introduce the Dreams and Hopes of the Disabled

What kind of world would be at the other end of the rainbow? <Over the Rainbow> an exhibition of artists with disabilities supported by the KT&G Welfare Foundation, toured Hongdae, Busan, and Chuncheon, celebrating its 3rd time in 2020. About 100 works of 15 artists with developmental disabilities were selected based on recommendations from regional organizations providing opportunities for new possibilities to artists with disabilities and introducing various artistic fields to the public.



Musical Robin



SangSang Madang Chuncheon



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Picture book workshop in Bologna



Studio secret live



Under The Roof

SangSang Madang Academy to Awaken the Imagination of Everyday Life

KT&G opened SangSang Madang Academy in 2007 to provide more opportunities for the public to experience culture and art. We endeavor to spread the daily creative education in which life becomes art by segmenting or integrating cultural and artistic genres closely related to our lives. We provide education that blurs the boundaries between professionals and amateurs through 'Design Figure Production' and 'Bologna Picture Book Workshop' and open courses that provide new cultural experiences to the general public and new motivations for creative activities for artists.

A Connection between Independent Designers and Those Seeking New Things

SangSang Madang Design Market, which discovers promising domestic designers who are practicing new imaginations through free creative activities, supports continuous creative activities while serving the role of managing designers such as product development, production, and exhibition. It creates a space that connects designers and the public through a design square where more than 300 brands and 2,000 innovative products are sold, an external distribution channel that is constantly expanding, and brand exhibitions for market testing of products.

Performance by project in 2020  
(5 SangSang Madang projects)



Performance

18 times / 63 artist teams



Exhibition

17 times / 88 artist teams



Design

66 times / 611 design teams



Education

55 lectures / 1,238 participants



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# BLOOMING THE CULTURE AND ARTS OF GYEONGSANG PROVINCE.

## SANGSANG MADANG BUSAN

### Opened SangSang Madang Busan (Sep. 2020)

The 5th 'SangSang Madang Busan' was opened to foster a non-mainstream culture in the Gyeongsang region and expand the cultural and artistic base. 'SangSang Madang Busan' is located in Seomyeon, with a floor area of approximately 20,000 m<sup>2</sup>, five underground floors, and thirteen ground floors, is the largest complex culture and art space ever in SangSang Madang. We support the differentiated culture and arts of Busan through cultural and art support projects in four fields (performance, exhibition, education, and design) under cooperation with various local organizations. SangSang Madang Bussan is comprised of three spaces: PLAY (caf , design square, performance hall, and gallery), CO-WORK (area for supporting one-person creators and youth start-ups), and REFRESH (accommodation, F&B, and movie theaters) performing cultural activities on the theme of shared growth with the local community. It is expected to contribute significantly to developing local culture and arts and activating the economy in the Gyeongsang region.

### Together And Together <SangSang Madang Busan – Connection with Local Governments/Related Organizations>

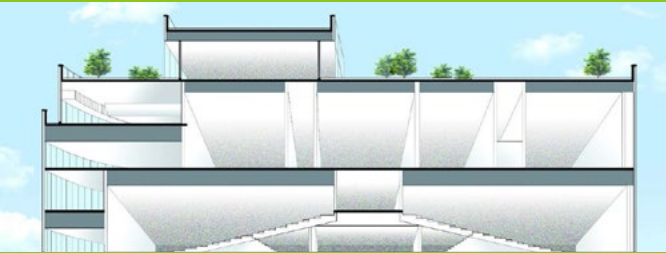


SangSang Madang Busan aims to become a bridgehead for culture and art in the Gyeongsang region, with few opportunities for culture and art. Since its opening, it cooperates with local governments and related organizations to challenge various content focusing on our individuality and strengths. In collaboration with Busan Metropolitan City, we carried out creative projects utilizing the regional characteristics and strengths, such as supporting custom-made shoe start-ups in Busan, selling customized shoes, and establishing a one-person creator center in cooperation with Busan Creative Content Agency.

## BUSINESS AREAS OF SANGSANG MADANG BUSAN

SangSang Madang Busan offers opportunities for creative activities in culture & arts to artists and enjoying culture to the public by creating Stay, Design Square, Academy, photo darkrooms, and cafes, as well as the performance venue and gallery, in the gross area of 19,514m<sup>2</sup>. In addition, we plan to build a space for job creation for the local youth to provide practical support in start-ups and job employment of the youth and sharing offices for start-ups and social ventures.

Performance	<ul style="list-style-type: none"><li>• Performance planning</li><li>• Artists support</li><li>• Music facilities</li></ul>	Design Square	<ul style="list-style-type: none"><li>• Idea commercialization</li><li>• Design product distribution</li><li>• Brand showcase</li></ul>	Creator Studio	<ul style="list-style-type: none"><li>• Creator cultivation and support</li><li>• Shooting studio/ editing rooms</li></ul>
Exhibition	<ul style="list-style-type: none"><li>• Visual arts exhibits</li><li>• Local artists support</li><li>• Exhibit-connected training</li></ul>	Stay	<ul style="list-style-type: none"><li>• Lodging operation</li><li>• Salon program</li></ul>	Youth Start-up	<ul style="list-style-type: none"><li>• Youth start-up assistance</li></ul>
Sharing Restaurant	<ul style="list-style-type: none"><li>• Young chef cultivation connected to the community</li></ul>	Networking Space	<ul style="list-style-type: none"><li>• Meeting room provision</li><li>• Lounge operation</li></ul>	F&B	<ul style="list-style-type: none"><li>• Cafe</li><li>• Rooftop restaurant</li></ul>

## A COMPREHENSIVE SPACE FOR COMMUNICATION SHARING CULTURE & ARTS

	<h3>REFRESH GROUND</h3> <p><b>Healing &amp; Rest Areas</b> Including movie theaters, food courts, and rooftop gardens filled with trees</p>
	<h3>CO-WORKING GROUND</h3> <p><b>Exchange and Collaboration Places</b> composed of support place for youth entrepreneurs and guest house for resting</p>
	<h3>PLAY GROUND</h3> <p><b>Cultural Space</b> including performance venue and gallery as well as the 1st floor lounge integrated with cafe, meeting rooms, and SangSang Hall</p>





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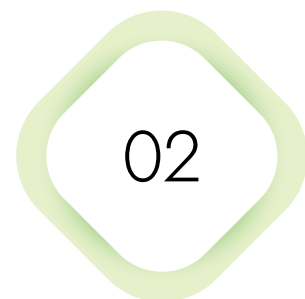
Shared Growth

CREATIVENESS: A TREE GROWING WITH 'CREATIVENESS'

SangSang Madang

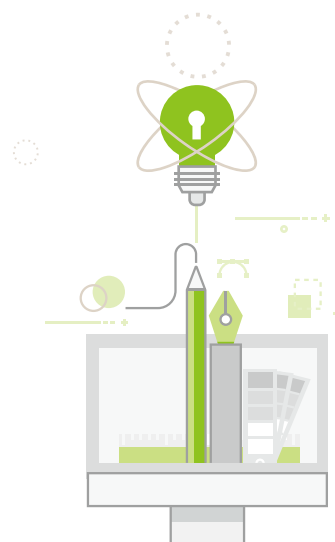
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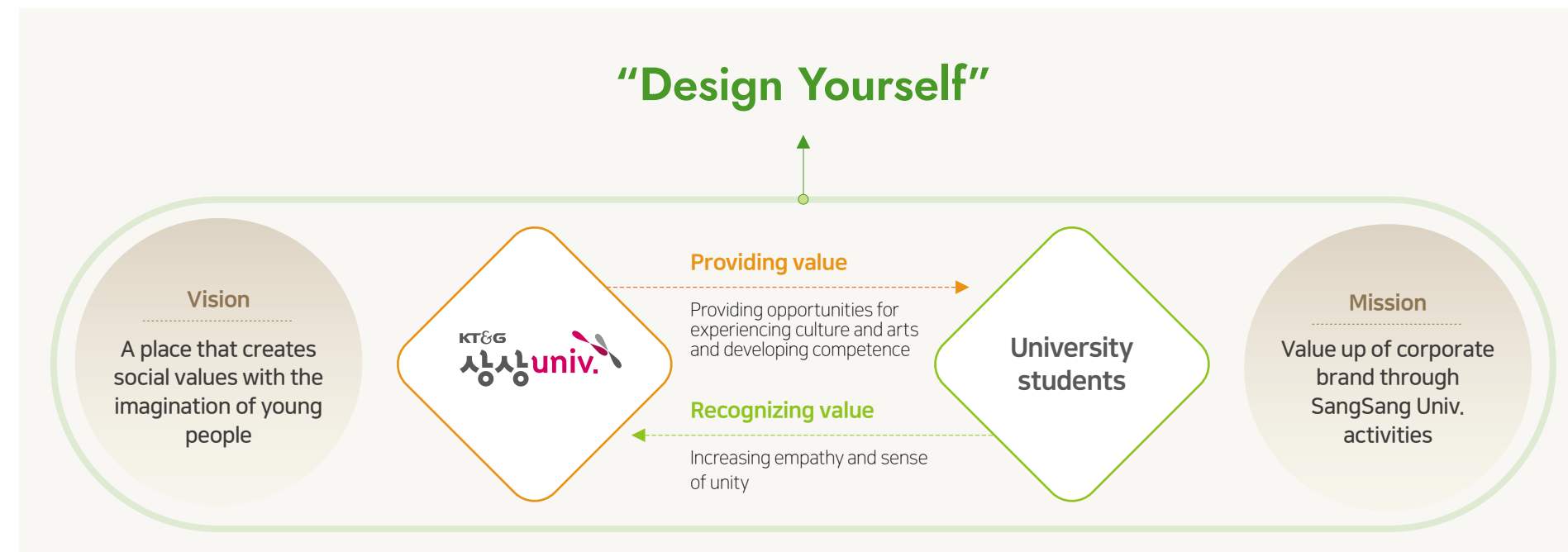


# SANGSANG UNIV

SangSang univ., a community for university students that creates social value with the imagination of young people, is one of KT&G's unique and differentiated CSR programs. It provides a place of exchange where university students can express their imaginations and discover new possibilities while sharing new memories with other students.



## Summary of SangSang univ



SangSang Univ. JIB. HYEON. JEON.

## PROJECT OF DISCOVERING UNIVERSITY STUDENT ARTISTS JIB. HYEON. JEON.

In 2020, we launched a project of discovering university student artists named 'Jib. Hyeon. Jeon.' to assist passionate and talented university students in music to grow into musicians. We provide university students who dream of becoming artists with opportunities to register and perform their music through mentoring by celebrities, production, and competition.

## JOB MENTORING PROGRAM, CAREER DINING

Youth unemployment is a rising issue that our society must resolve together. KT&G surveyed university students in May 2019 to solve the youth unemployment problem, questioning 'What is considered the most necessary program to prepare for getting a job.' And 'the advice of a current worker who has experience with the job' had the most responses. Accordingly, KT&G established the Career Dining Program for university students to communicate with current workers and share information and concerns about getting a job. In 2020, we selected 220 university students currently enrolled and those on leave of absence from all over the country who were preparing to apply for a job and provided them with an opportunity to obtain advice using a non-face-to-face video conferencing system with the current workers.

- Welfare Foundation
- Scholarship Foundation

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- SangSang univ

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## Amount of ‘HOPE’ Assistance

(Unit: KRW 100M)

Category	2018	2019	2020
Welfare Foundation	121	118	135.9
Scholarship Foundation	36	42	40
Subtotal	157	160	176

## Amount of ‘SHARED GROWTH’ Assistance

(Unit: KRW 100M)

Category	2018	2019	2020
Youth Start-Up	155	81	92.9
SangSang Fund	38	39	40.5
Social Responsibility	21	28	9.2
Donation/Sponsorship	71	16	22.7
Investment Shared Growth Fund	-	343	32.7
Subtotal	285	507	198

## Amount of ‘CREATIVENESS’ Assistance

(Unit: KRW 100M)

Category	2018	2019	2020
SangSang Madang	175	287	269.2
SangSang univ.	52	52	25.8
Other	-	4	2.7
Subtotal	227	343	297.7

## KT&G Social Contribution Network

KT&G	www.ktng.com	T. 82-80-931-0399
KT&G Welfare Foundation	www.ktngwelfare.org	T. 82-2-563-4459
KT&G Scholarship Foundation	scholarship.ktngtogether.com	T. 82-70-4124-6451
KT&G SangSang Planet	www.sangsangplanet.com	T. 82-70-7439-9436
KT&G SangSang Madang	www.sangsangmadang.com	T. 82-2-3404-4589
KT&G SangSang univ	www.sangsanguniv.com	T. 82-2-3404-4342



**Contact** KT&G Social Contribution Office  
**Address** 416, Yeongdong-daero, KT&G Tower, 19F, Gangnam-gu, Seoul, Republic of Korea (06176)  
**E-mail** 20190034@ktng.com  
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