



Imagine & Think Next

Sustainability Report 2007

KT&G
Korea Tomorrow & Global

Sustainability Report 2007



Guideline

Items included in KT&G Sustainability Report 2007 were selected on the basis of the GRI G3 Guidelines. Those GRI-recommended items which pertain to KT&G are listed in the GRI indicators in the appendix.

Reporting Period and Cycle

This report focuses on the current sustainability management status and performance of KT&G from January 1, 2007 to December 31, 2007. Quantitative data is based on 3 years of environmental data (2005~2007), and 5 years of economic and social data (2003~2007; however, the customer satisfaction survey result on p50 is based on 2003~2006). Sustainability management performance reporting shall be done annually through a sustainability report and homepage.

Scope of the Report

This report covers the management activities (including overseas business activities) of the head office, facilities (4 tobacco manufacturing plants, 2 leaf tobacco processing factories, and 1 printing plant), regional sales headquarters, branch offices and sales offices, but does not cover the management activities of the companies KT&G owns or invested in.

Third Party Review Process

To enhance the reliability of this report, KT&G named experts in sustainability management, obtained third party reviews, and you will find the details in "third party review opinion" in the appendix.

Inquiry About the Report

If you have any questions or need additional information about KT&G Sustainability Report 2007, please contact the Department of Social Contribution (Phone: 082-2-3404-4581, Fax: 082-2-3404-4546) in the KT&G CR Office.

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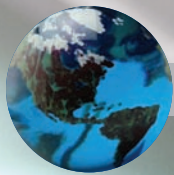
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*The power of the future is
sweeping across the world.*

KT&G imagines a better tomorrow!



CEO's Message

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We will make every effort to pay close attention to the interests and needs of our stakeholders. Thank you.

Chairman and CEO
Young-Kyoon Kwak

곽영준



The First Step Toward Sustainability Management

It's a great honor for all of us at KT&G to be able to express KT&G's strong drive for sustainability management through this report.

Having started out as 'Gunghnaeseong Naejangwon Samjeonggwa' in August 1899, KT&G was became 'Jeonmaecheong (the Monopoly Bureau)' in April 1952. Afterwards, it was renamed Korea Monopoly Corporation and then Korea Tobacco and Ginseng Corporation. It changed its CI to KT&G, and was successfully privatized in 2002. KT&G has contributed to the economic development of the country for 108 years. Now we must move a step further away from the growth-oriented policy so that we manage the company in a way conducive to economic, social and environmental coexistence, and need a systematic change and innovation in that direction. KT&G is going to fulfill its social responsibility and present its vision for the future to transform itself into a company respected and trusted by stakeholders.

All employees of KT&G selected 9 sustainability management strategic tasks and 24 practical tasks, and we are in the process of carrying out these tasks to ensure a balance among the economic, social and environmental outcomes of all management activities. We will present a more systematic and clear road map to execute a sustainability management linked to mid-to-long-term management strategies.

The sustainability management of KT&G starts with its endeavor to maximize the value of stakeholders. KT&G is going to be recognized by its customers as a righteous, enlightened company pursuing companionship on the basis of transparency in management.

Righteous KT&G

KT&G won commendations: named one of the best companies in corporate governance in 2003, named number one in corporate governance for 3 years consecutively from 2004 to 2006, and named the honored company in corporate governance in 2007. This resulted from KT&G's all-out effort to enhance shareholder value and operate the board of directors in the most practical way possible.

On this basis KT&G will faithfully abide by the social norms and duties as a 'righteous company'. We will establish a responsible management system placing emphasis on autonomy and creativity, and pursue the future-oriented 'Right Way' in management.

Enlightened KT&G

KT&G has managed the company in a transparent and efficient manner through an advanced BOD system, and thus we have been recognized as an exemplary blue-chip company by a number of domestic and overseas rating agencies. That's not the end of the story. KT&G is diversifying its business and has identified new business models, such as red ginseng, bio, pharmaceutical and real estate, in a bid to transform itself into a global enterprise.

KT&G is trying to transform itself into an "enlightened enterprise" through endless change and innovation. Not simply following leaders of change and innovation, KT&G will become a forward-looking and creative company with "change and innovation" being its goal.

KT&G Pursuing Companionship

KT&G has continued to invest generously in social contribution through the KT&G Social Welfare Foundation, the Happiness Network, etc.

As a "company pursuing companionship" KT&G will always create new values for clients, shareholders, employees and communities, and fulfill its social responsibilities while actively accommodating social norms and taking a lead in realizing public interests.

KT&G will also faithfully fulfill its social and environmental responsibilities by enhancing the win-win relationship with suppliers, and reinforcing environment-friendly management practices.



The Future of a
Global Blue-chip Company!





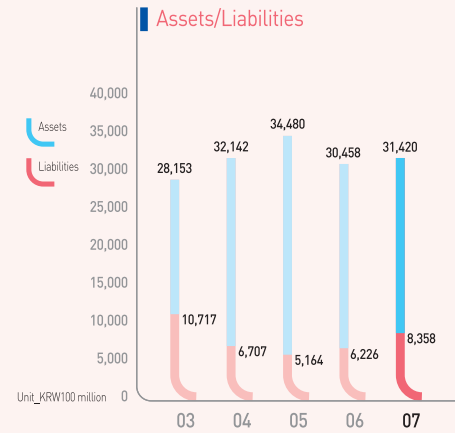
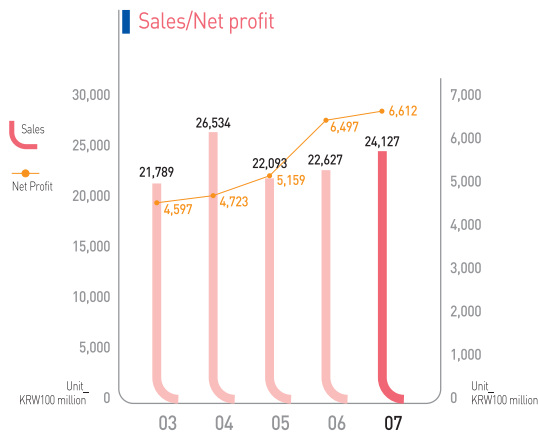
KT&G's Highlight

*If you imagine a better future,
it will become a reality!*

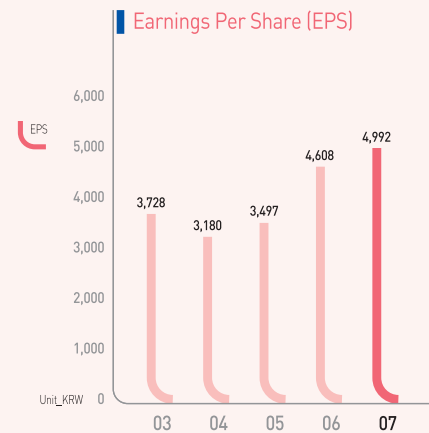
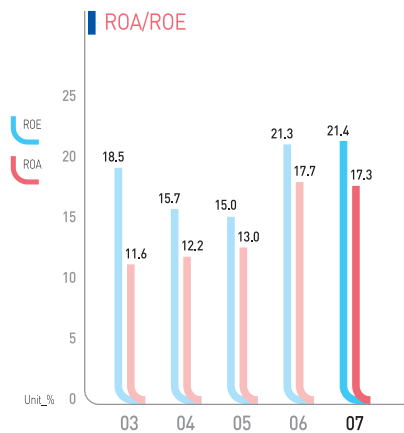


Economic Performance Indicators

Key Business Performance



Key Financial Statements



Credit Rating (corporate bonds)

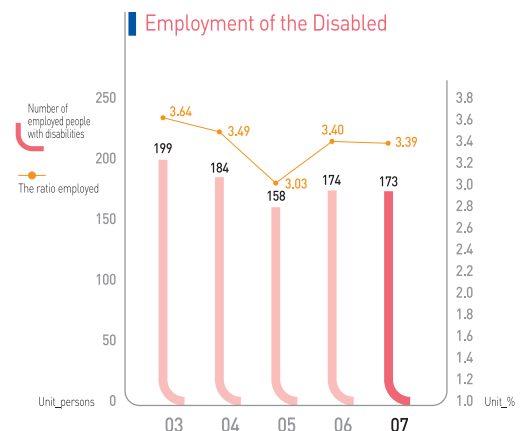
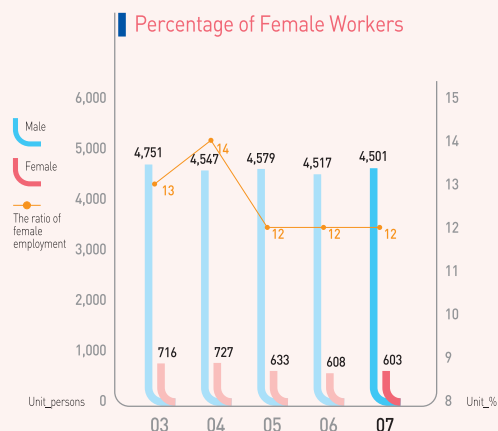
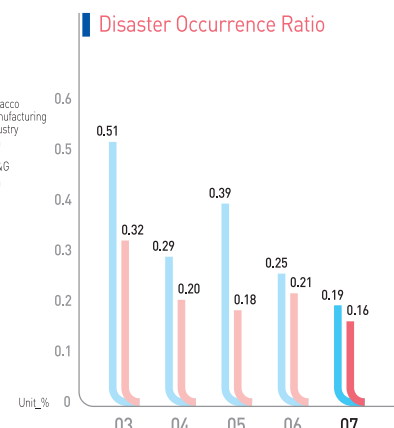
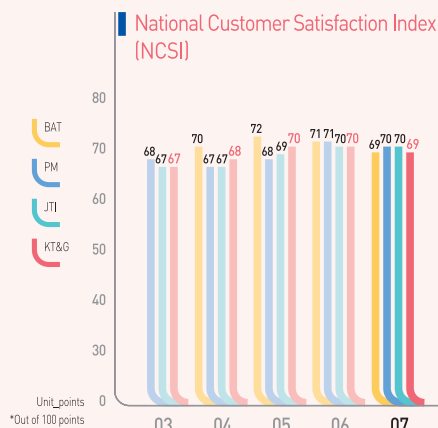
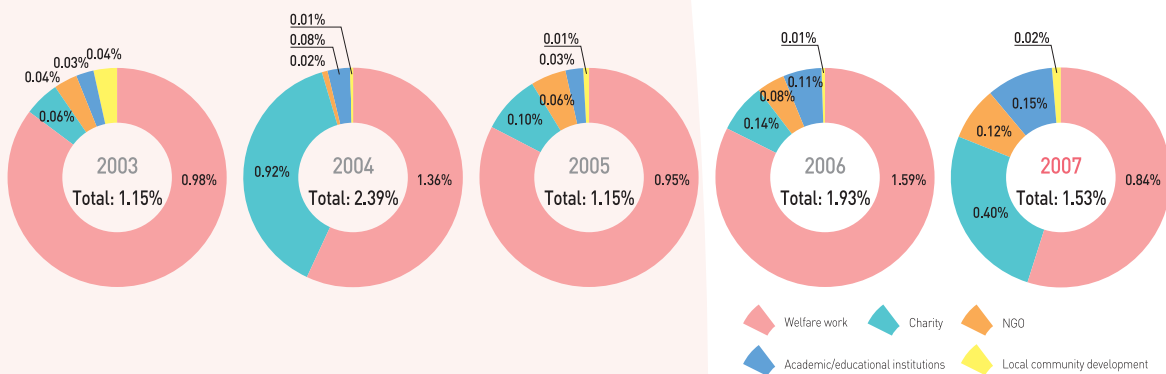
Date	Credit Rating Agency	Credit Rating	Rating Range	Rating Classification
August 28, 2006	Korea Rating Corporation National Information & Credit Evaluation Inc.	A1	A1~D	On demand
June 11, 2004	Korea Rating Corporation	AAA	AAA ~ D	Regular
January 21, 2003	S&P, US	A-	AAA ~ C	Regular





Social Performance Indicators

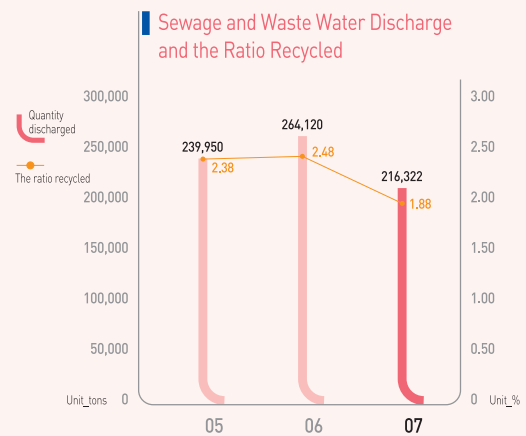
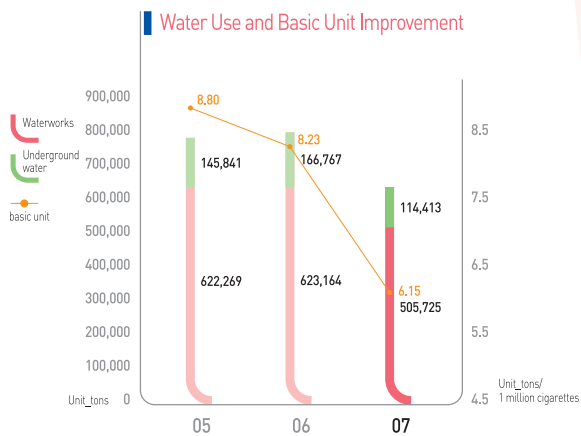
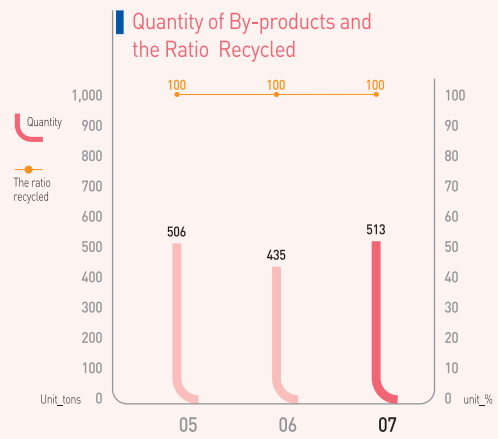
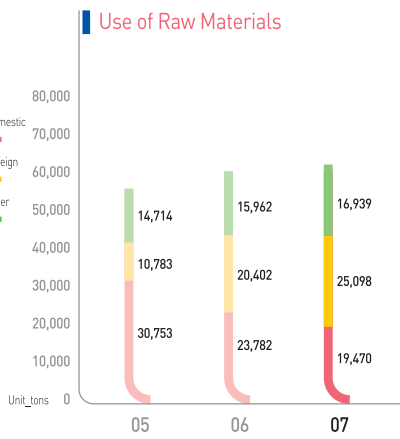
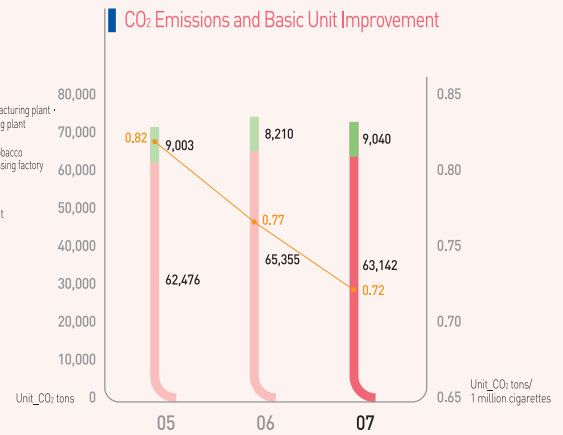
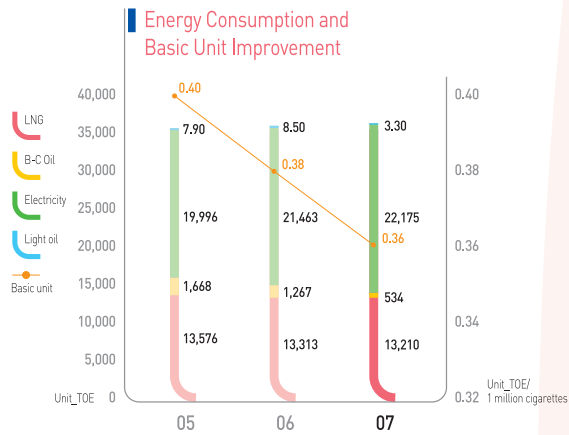
The Ratio of Social Contribution out of Sales

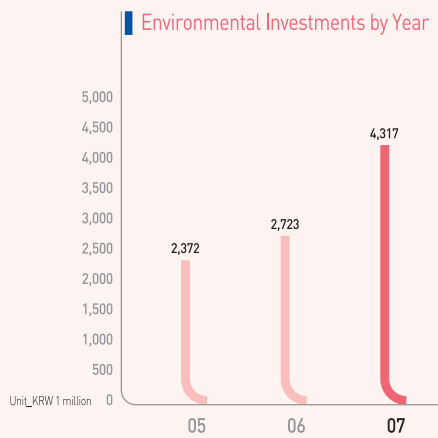
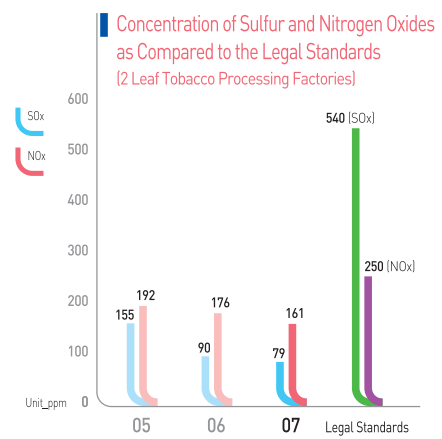
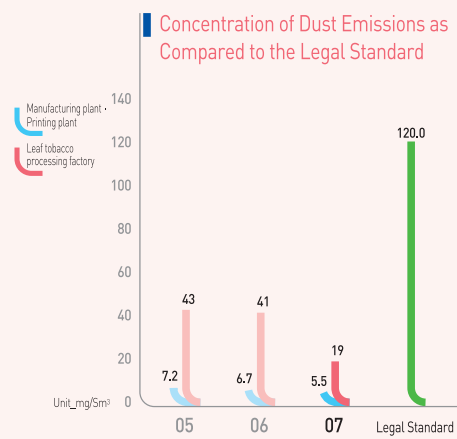
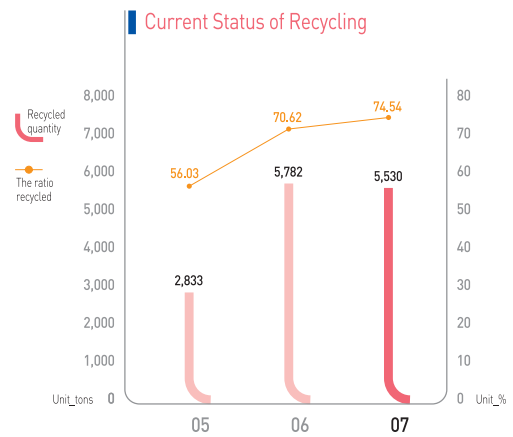
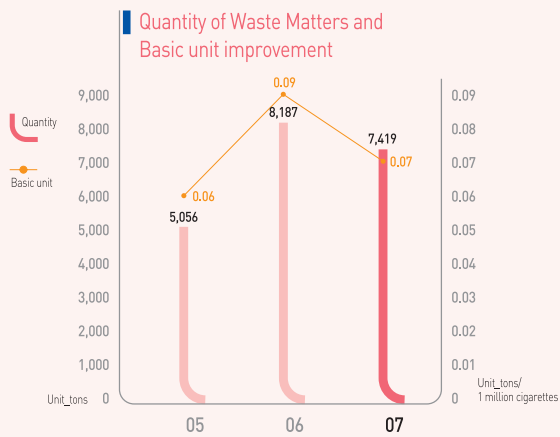




Environmental Performance Indicators

* Environmental data concern KT&G's 7 facilities (Sintanja, Gwangju, Yeongju, and Wonju Manufacturing Plants, Gimcheon and Namwon Leaf Tobacco Processing Factories, and Cheonan Printing Plant).







Sustainability Report 2007 | *Imagine & Think Next*



Righteous,
Enlightened and Companion Company





Value-Creating KT&G

*KT&G shares a reliable future with
stakeholders in and out of the company!*



Company Outline

Company Outline (as of 2007)

Company Name	KT&G Corporation
Address of Head Office	100, Pyeongchon-dong, Daedeok-gu, Daejeon
Date Established	April 1, 1987
Company Type	Private
Total Assets	KRW3.98 trillion
Sales	KRW2,412.7 billion
Number of Employees	5,104 (4,344 regular employees, 760 contract workers)
Affiliates	Korea Ginseng Corporation, KT&G Turkey, Yungjin Pharmaceutical, Tae-a Industries, KT&G Mongolia LLC, Korea Tobacos do Brasil Ltda.
Key Institutional Shareholders	Industrial Bank of Korea (6.6%), ESOP (6.1%), other foreign shareholders (52.5%)

KT&G's Roles

Since its privatization KT&G has been taking the initiative in stabilizing the domestic market and expanding exports in the cigarette business, its main business domain. Furthermore, it is diversifying its business into red ginseng (with focus on Cheong-Kwan-Jang), bio, pharmaceuticals and real estate.

Business Structure



Cigarette Business

To reinforce the role of the value base through reinforcement of business competencies and qualitative growth in overseas business.

Real Estate

To compare the value of outright sale with that of development to maximize value.

Investment in Health and Functional Food

To foster 'Korea Ginseng Corporation', one of its affiliates, intensively as a value grower to make it a growth engine of KT&G.

Investment in Pharmaceuticals

To ensure that Yungjin Pharmaceutical, one of its affiliates, serves as the function and role of KT&G's value catalyst.

Investment in Bio Industry

To maximize value in consideration of business potential and integrity of investment purposes.

Investments (as of 2007)

Company Name	Number of Stocks (shares)	Equity Ratio (%)
YTN	8,380,000	19.9
Korea Ginseng Corporation	12,985,851	100.0
Celltrion	37,913,680	13.9
Cosmo Tobacco Co, LTD.	480,000	40.0
Nexgen	1,000,000	11.8
Lifenza	29,047	13.0
Innodis	110,000	19.6
Yungjin Pharmaceutical	65,655,051	55.5
KT&G Tutun Mamulleri Sanayi ve Ticaret A.S.	8,999,888	99.9
Oscotec	230,770	3.5
Tae-a Industries	150,000	100.0
Korea Islet Transplantation Research Institute	110,500	48.3
Rexahn Pharmaceuticals, Inc.	4,642,858	8.4
KT&G Mongolia LLC	40,000	100.0
Korea Tobacos do Brasil Ltda.	No stock issued	99.9
Crystalgenomics	172,187	1.9
Genematrix	300,000	10.3
LitePharmTech	77,667	29.5
Hurum	7,800	9.8
MD Bio Alpha	197,556	6.9
OCT USA Inc.	48,780	19.9
Shinhan Financial Group	3,500,000	0.9
Dream Hub PFV Co., LTD.	15,000	1.5



KT&G Imagining a Better Tomorrow

KT&G will provide quality products for the sake of a better tomorrow and a happy world.

We respect people, who are our core competency of the future, create values for employees and the company, and intend to transform into a growing company by innovating the business structure continuously.

In particular, to become a 'trusted company', we are giving top priority to customers in business activities, and reinforcing responsible management and ethical management through empowerment. On top of that, we are focusing on creating higher value added by adopting efficient and innovative operation systems.

Organizational Structure

KT&G consists of 4 Groups, 6 Headquarters and 1 Central Research Institute. Also, the Marketing Group includes 14 Regional Sales Headquarters, whereas the Production Group includes 4 manufacturing plants, 2 leaf tobacco processing factories, and 1 printing plant.

Vision and Management Philosophy

Corporate Vision

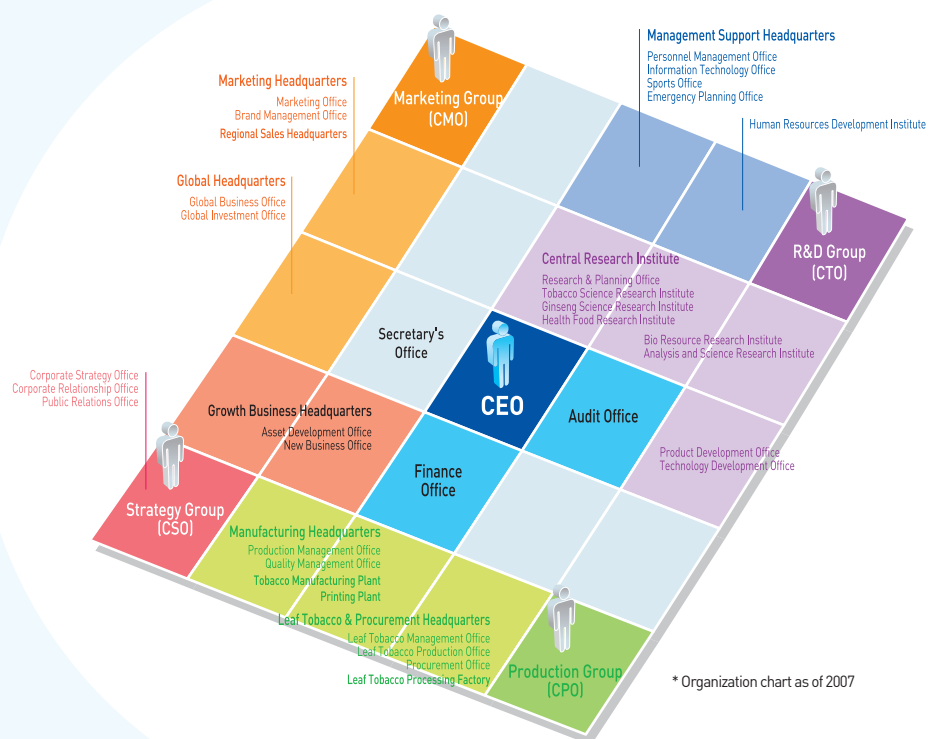
To become a global blue-chip company by maximizing the corporate value and the value of employees

Management Philosophy

- Righteousness
- Enlightenment
- Companionship

Mid-to-long-term Management Goals

- Consolidate its undisputable No. 1 position in the domestic market
- Seek balanced qualitative reform and innovation in revenues and growth of overseas markets
- Raise the competency in R&D and marketing to the top level
- Secure growth potential and profitability by building a balanced business structure





KT&G's Sustainability Management

Application of the Sustainability Management concept

Vision

- To "Become a Global Blue-Chip Company" by creating new values
- The meaning of creating new values
 - Creating economic values through globalization and diversification of new businesses
 - Creating environmental values through environment-friendly management
 - Creating social values through responsible management

Goal

- "EVER KT&G 2015"
 - E: Excellent (Economy)
 - V: Value-Creating (Economy, Society and Environment)
 - E: Eco-Friendly (Environment)
 - R: Responsible (Society)

Sustainability Management Vision

The goal of KT&G's Sustainability Management is "EVER-KT&G 2015". E stands for 'Excellent', meaning excellent economic performance. V stands for 'Value-Creating', meaning creation of economic, social and environmental value. E stands for 'Eco-Friendly', meaning the image of an environment-friendly enterprise. R stands for 'Responsible', meaning growth into a company fulfilling its social responsibility. This is KT&G's will to accomplish the goal of its Sustainability Management in the economic, social and environmental sector by 2015.

Vision	Become a Global Blue-chip Company by Creating New Values		
Goal	EVER-KT&G 2015		
	Economy	Society	Environment
Strategic Direction	To enhance business competitiveness through value-oriented reform	To enhance win-win relationship by performing the role of a corporate citizen	To build an environment-friendly company by engaging in environment-friendly business
Strategic Tasks	<ul style="list-style-type: none"> • To reinforce market competitiveness of its main business domain • To reinforce innovation leadership activities • To improve corporate value through business 	<ul style="list-style-type: none"> • To maximize customer value • To maximize human resource value • To reinforce win-win cooperation 	<ul style="list-style-type: none"> • To reinforce environment-friendly management system • To reinforce readiness to respond to environmental risks • To build environment-friendly corporate culture
Practical Tasks	<ul style="list-style-type: none"> • 8 practical tasks in the economic sector, such as <ul style="list-style-type: none"> - To reinforce competitiveness in the domestic market - To build the infrastructure for Sustainability Management - To foster global leaders and experts 	<ul style="list-style-type: none"> • 9 practical tasks in the social sector, such as <ul style="list-style-type: none"> - To improve customer satisfaction - To manage sustainability of the supply chain - To reinforce stakeholders' human network management 	<ul style="list-style-type: none"> • 7 practical tasks in the environmental sector, such as <ul style="list-style-type: none"> - To reinforce environment-friendly management organization - To operate systematic environmental education - To introduce and reinforce the eco-efficiency of products





Reflect the opinions of stakeholders

To fully reflect the opinions of stakeholders, KT&G interviewed and surveyed internal and external stakeholders from the report planning stage, and obtained third party review opinions through external Sustainability Management experts.

Organize working-level consultation task force teams in relation to Sustainability Management strategies

KT&G organized task force teams consisting of working-level staff members of individual departments to diagnose the current status of sustainability management, and reflected the opinions of internal stakeholders in establishing strategies and writing reports. Also, KT&G wrote reports about economic, social and environmental performance in reference to the business reports and strategy reports.

Interview with external stakeholders

To systematically reflect the expectations and interests of external stakeholders, KT&G reviewed media coverage, domestic and overseas laws and regulations, and external evaluation data. Also, KT&G analyzed their expectations and interests through group interviews with various stakeholders, such as the Government, suppliers, and NGO's.

Interview with and survey of internal stakeholders

To gain an understanding of and diagnose the level of KT&G's Sustainability Management, KT&G interviewed and surveyed internal stakeholders from September 2007 till October 2007.

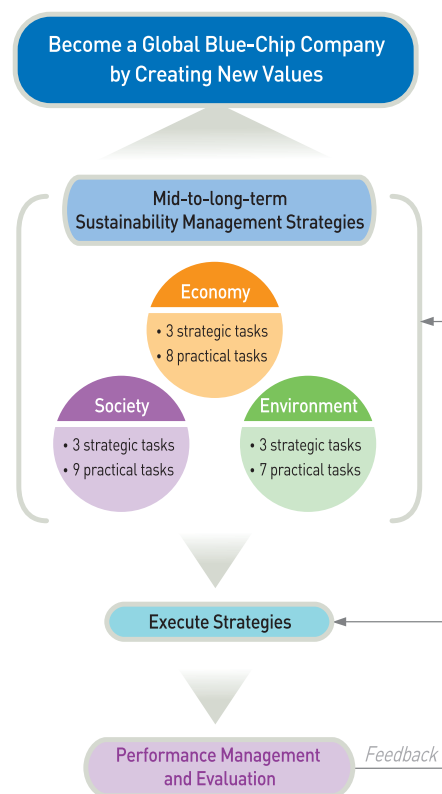
Third party review by external experts

KT&G appointed third party reviewers, who are experts in sustainability management, and collected their opinions as much as possible. In particular, review focus was placed on whether the direction of KT&G's sustainability management is appropriate, and whether the report reflects the opinions of stakeholders sufficiently.

Sustainability Management

KT&G established Sustainability Management strategies in economy, society and environment, and sought ways to execute the strategies at the enterprise and departmental level. Furthermore, KT&G is planning to aggressively engage in internal and external activities, such as joining the UN Global Compact. We will firmly establish Sustainability Management as KT&G's corporate culture through active business collaboration with related departments, performance management and evaluation so that these activities will lead to concrete outcomes.

Reflection of elements of Sustainability Management and feedback procedure





KT&G's Sustainability Management

Application of the Sustainability Management concept

Economy

To enhance competitiveness of the main business domain

To reinforce the competitiveness of the main business domain

To gain a competitive edge through innovative leadership

To reinforce innovative leadership activities

To increase economic value by diversifying businesses

To increase corporate value by diversifying businesses

Society

To increase internal and external efforts to enhance customer values

To maximize customer values

To enhance corporate competitiveness through effective human resources management

To maximize human resources value

To improve corporate image on the basis of a win-win cooperative relationship with stakeholders

To reinforce the win-win cooperative system

Environment

To secure environment-friendly leadership by reinforcing the environmental management system

To reinforce the environment-friendly management system

To reinforce the ability to proactively cope with environment management risk factors

To reinforce the ability to cope with environmental risks

To improve the environment-friendly corporate image by reinforcing internal and external communication

To build environment-friendly corporate culture

The Basis System of Sustainability Management

KT&G's sustainability management largely focuses on three sectors: economy, society and environment. First of all, the key contents are enhancement of business competitiveness through value-oriented reforms, promotion of win-win relationship by performing the role of a corporate citizen, and creating an environment-friendly enterprise through environment-friendly businesses.

KT&G presented a vision: "becoming a global blue-chip company by creating new values." To this end, under the mid-to-long-term management goals, KT&G is making an all-out effort to become a trusted company on the basis of globalization, diversification of new businesses, responsible management, and environment-friendly management.

In particular, to accomplish the vision of sustainability management, KT&G derived 9 strategic tasks, 24 practical tasks, and related KPIs, and added new social and environmental strategies. To ensure that key economic, social and environmental practical tasks are connected to sustainability management strategies, KT&G defined direction, and established the road map for efficient implementation.

For starters, from the viewpoint of economy, KT&G derived strategic tasks to increase the market competitiveness of the cigarette business, gain a competitive edge through innovative leadership, and enhance the corporate value through business diversification. Detailed practical tasks include reinforcing competitiveness in the domestic and overseas market by expanding business domains and promoting innovative culture, securing a value-oriented business portfolio, and reviewing resource and energy-related businesses in connection with climate change.

From the viewpoint of society, KT&G will promote the win-win relationship by performing the role of a corporate citizen, increase customer value, and maximize the value of internal human resources. We are also planning to create a win-win cooperative relationship with stakeholders by forming a network with NGOs and relevant organizations, ensuring sustainability management of suppliers, engaging in social contribution activities, and gaining a correct understanding of and responding to domestic and overseas regulations.

From the viewpoint of environment, we are going to reinforce our environmental management competency and make it part of the corporate culture. We will adopt and operate an environmental management program by means of systematic R&D, and improve our ability to cope with environmental risks by reinforcing the environment-friendly management system, introducing the concept of eco-efficiency, purchasing environment-friendly materials, and improving the readiness to respond to climate changes. In addition, KT&G derived a strategic task of building environment-friendly corporate culture to reinforce external environment communication and systematize environment education.





Where is KT&G's sustainability management headed?

KT&G named 2008 through 2010 as the starting period of sustainability management, established sustainability management strategies, and has a concrete plan to publish the sustainability report on a regular basis. KT&G is also planning to form internal and external sustainability management networks, e.g. the UN Global Compact and KBCSD (the Korea Business Council for Sustainable Development). On top of that, we are going to reshuffle the organization to implement organic work processes in environment, health and safety, and lay down the foundation for effective environmental management.

From 2011 to 2013 sustainability management will take root and main processes will be implemented. In this period we are planning to link sustainability management to the mid-to-long-term master plan, and reinforce the compensation system as regards the outcome of sustainability management. To boot, we are going to disseminate Sustainability Management in the supply chain by supervising and inspecting suppliers and educate them in environmental management. And we will also continuously provide education and training programs to form an internal consensus about Sustainability Management.

From 2014 and onward KT&G's sustainability management will be more mature, and KT&G will accomplish its quantitative goals, including the entry into the Dow Jones Sustainability Indexes (DJSI).



Sustainability management road map





KT&G's Sustainability Management

2007 Outcomes and Future Plans in the Economy Sector

●: Completed ●: In progress ○: Planned

Category	Activity	Current Status
Economic Value Creation		
Enhancement of market competitiveness	Reestablishing marketing infrastructure system	●
	Stabilizing the competitiveness of leading brands	●
	Focusing on R&D to create new markets	●
	Developing overseas brands and improving their competitiveness	●
Increasing corporate value by diversifying businesses	Managing business portfolio	●
	Reviewing resources related to climate change and energy business	○
Sustainability Management		
Building the infrastructure for sustainability management	Establishing the vision and strategies of sustainability management	●
	Creating the organization for sustainability management	○
	Providing education programs to increase awareness of sustainability management	○
	Disclosing the outcomes of sustainability management	○
Building the network for sustainability management	Preparing the sustainability management report	●
	Joining domestic and foreign organizations related to sustainability management (UN Global Compact, KBCSD)	○
Improving the global competencies of employees	Expanding global competency education (language and awareness) to all plants and offices	○
	Improving the employee competency education and training system	●

2007 Outcomes and Future Plans in the Social Sector

Category	Activity	Current Status
Enhancing Customer Value		
Increasing customer satisfaction	Improving product quality and developing excellent design	●
	Updating the customer response manual and providing manners training programs	○
	Developing products meeting social and environmental requirements	●
Increasing the Value of Human Resources		
Increasing employee satisfaction	Reinforcing the employee healthcare support system	○
	Improving the vacation system and childcare support program	○
	Supporting various life planning programs	●
Reinforcing the workplace health and safety system	Disseminating environment and safety education program in the workplace, including seasonal employees	●
	Preventing production line noise in workplaces	●
	Finding ways to reduce mental and physical stress of employees	○
Pursuing Win-win Cooperation		
Managing human networks	Building human network database	○
	Creating opportunities to communicate with stakeholders	○





Category	Activity	Current Status
Pursuing Win-win Cooperation		
Supply chain management	Assisting suppliers with ISO14001 certification	○
	Providing and supporting environmental management education for suppliers	○
	Continuously providing guidance and monitoring waste treatment vendors	●
	Reviewing the formation of the sustainability management meeting of suppliers	○
Reinforcing social contribution activities	Promoting youth smoking prevention activities and smoking etiquette and culture	●
	Engaging in social contribution programs jointly with external organizations	○
	Disclosing outcomes of social contributions	●
	Preparing a corporate-wide social contribution outcome management system	●
Identifying and coping with regulatory trends	Identifying FCTC regulatory trends and establishing countermeasures	●

2007 Outcomes and Future Plans in the Environmental Sector

Category	Activity	Current Status
Reinforcing Environmental Management System Operations		
Reinforcing the environmental management organization	Establishing environmental strategies	●
	Clearly reestablishing R&R in relation to environment	○
	Integrating operations of environmental, health and safety organizations	○
	Regularly holding the environmental management committee	○
Adopting and operating an environmental management program	Maintaining the ISO14001 certification of tobacco manufacturing plants	●
	Securing the ISO14001 certification of leaf tobacco processing factories and printing plants	●
	Operating environmental management programs, such as environmental performance evaluation	○
	Operating an integrated environmental information management system	○
Reinforcing the Ability to Cope with Environmental Risks		
Understanding the eco-efficiency of products	Introducing eco-efficient techniques	○
	Operating LCA	○
Establishing the green purchasing system	Publishing the green purchasing guideline	○
Reinforcing the ability to cope with climate changes	Increasing the use of more energy-efficient devices	●
	Using renewable energy for part of the facilities in workplaces	○
	Using the wastewater reclamation and reusing system based on rainwater	○
Building the Environment-friendly Corporate Culture		
Reinforcing the environmental communication	Protecting the bio diversity around the workplaces	○
	Joining domestic and overseas organizations related to environmental management	●
	Disclosing outcomes of environmental management	○
	Providing corporate-wide environmental management education	○
Increasing environmental consciousness	Providing environmental management expert courses	●



KT&G Partnership

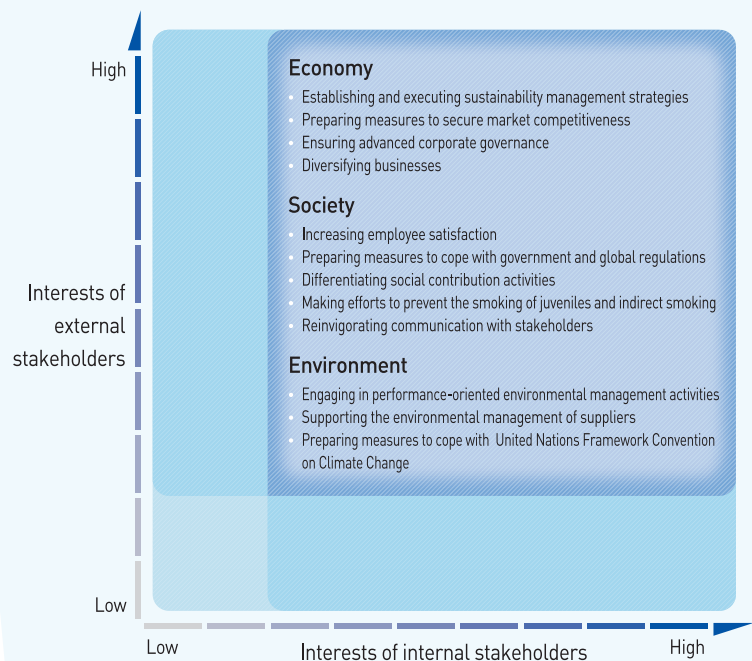
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Selection of Key Issues

On the basis of the interview and survey of internal and external stakeholders KT&G established the direction of sustainability management. On top of that, we clarified how to cope with different stakeholders and their respective key issues, and reflected them in establishing sustainability management strategies.

Key Interests of Stakeholders





How to cope with different stakeholders and their respective key issues are described in the following pages:

Government

KT&G is actively cooperating with the government in regard to the national health protection policy relating to smoking.

- ▶ Description of the 'Framework Convention on Tobacco Control' and how KT&G will cope with it (p49)

Customer

To minimize the harm KT&G's products do to the health of customers, KT&G continuously conducts R&D and engages in responsible marketing activities.

- ▶ Disclosing product information to customers (p49)
- ▶ Product research to reduce the harm of smoking (p49)
- ▶ Customer satisfaction survey (p50)
- ▶ Establishing marketing standards (p51)

Shareholders

KT&G is trying to secure financial soundness on the basis of transparent and ethical management, and fostering global brands and diversifying its businesses for the sake of sustainability management.

- ▶ Key domestic and overseas performance (p27)
- ▶ Shareholders return (p27)
- ▶ Advanced corporate governance (p32-34)
- ▶ Ethical management (p35-37)

Employees

We are trying to improve employee satisfaction by assisting with education for self-improvement, operating the industrial safety and health system, protecting the human rights of the minority, and adopting various welfare and benefits programs.

- ▶ Protecting the human rights of the minority (p38-39)
- ▶ Welfare and benefits programs for employees (p39)
- ▶ Operating employee education programs (p40)
- ▶ The industrial safety and health system (p41-42)

Suppliers

KT&G is pursuing win-win cooperation by providing technical advice for suppliers, conducting joint researches, and providing regular supervision and inspection with respect to sustainability management.

- ▶ KT&G's economic and financial contribution to the country (p28)
- ▶ Building win-win cooperative partnership (p43)

Environment

KT&G is responding to international environmental issues, such as the United Nations Framework Convention on Climate Change to adopt an environmental management system and minimize environmental pollution.

- ▶ Ensuring performance-oriented environmental management (p54-55)
- ▶ Responding to climate change (p56)

Local communities, NGO's and NPO's

KT&G is continuously engaging in social contribution together with local communities, NGO's and NPO's, and establishing new strategies to promote a clean smoking culture.

- ▶ Social contribution (p44-47)
- ▶ Reinforcing youth smoking prevention activities (p45)
- ▶ Improving the environment in consideration of non-smokers (p45)
- ▶ Engaging in environmental protection activities (p46, p61)



It is imagination today,
but it will become a reality tomorrow!





Excellent KT&G

*If imagination added, our economy will
grow at an accelerated pace!*



Management Process Improvement

Proclamation of the Mid-to-long-term Vision for Innovation of KT&G



Establishing the Mid-to-long-term Master Plan

KT&G established the mid-to-long-term master plan in August 2006, and presented the following road map:

1. To reinforce the fundamentals of the company
2. To radically enhance the economic value of the company from the long-term perspective
3. To realize sustainability management of KT&G

KT&G will be able to publicize its will to pursue corporate-wide change and innovation aggressively.

Operating the Mid-to-long-term Vision and Strategies

KT&G established the action plans for the mid-to-long-term master plan in December 2006, and announced the redesign of the existing business processes.

To give you more detail, KT&G proposed the following action plans:

1. To improve material supply processes
2. To modernize workplace facilities and increase investments to reinforce quality competitiveness
3. To link sales to production plans and improve the logistics system

To execute the mid-to-long-term vision, KT&G presented detailed objectives by year, and is managing outcomes by means of continuous reviews and inspections.

On top of that, in line with the business portfolio according to the master plan, KT&G redesigned the organization. We reassigned human resources as well as reinforcing our organizational competencies in such core areas as branding, marketing, finance, strategy and R&D.

Having defined 2007 as the first year of the 'realization of the New KT&G vision', KT&G is working hard to deploy forward-looking business strategies in all sectors, and concentrate corporate-wide competencies.

Operating the Corporate-wide Suggestion System

KT&G is operating the corporate-wide suggestion system in its manufacturing plants, leaf tobacco processing factories and printing plants. A considerable number of the suggestions made by employees are actively reflected in improvement of business processes, and KT&G measures them and manages corresponding performance indicators.

KT&G is also discussing the performance and direction of the manufacturing business through manufacturing strategy workshops of the production group. And we are also operating the company-wide VOE (Voice of Employee) program which recommends each employee to make 10 suggestions each year with regard to 'quality, environment, safety and productivity'.

The Mid-to-long-term Master Plan, Goal and Key Strategies



Creating Economic Values

Imagine & Think Next



CEO's Message

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Environment_Eco-Friendly KT&G

Appendix

Major Achievements at Home and Abroad

KT&G's 2007 sales and net income increased 6.6% and 1.8% over the previous year to KRW2,412.7 billion and KRW661.2 billion respectively. This results from KT&G's effort to create corporate value continuously and stably, and maximize shareholder values despite uncertainties like the stiffer competition in the cigarette market, the reduced size of the domestic market, and the tougher regulations.

In particular, the domestic business has continued to face difficulties in the market, e.g. reduced demands on cigarettes due to the growing health consciousness, tougher regulations and fiercer competition. However, KT&G built leading brands such as "ESSE", "THE ONE" and "RAISON", and its sales increased consequently 1.6% in 2007 over the previous year.

As for the overseas business, the excellent performance of middle and high-priced brands like "ESSE SOON/Special Gold" and "PINE" Premium led to a 19.6% increase in sales over the previous year. KT&G's sales increased remarkably in its key markets: 27.3% in Middle East, 70.4% in Central Asia, and 90.3% in Southeast Asia, but sales dropped 20.4% in Russia and Eastern Europe.

Current Status of Each Business Sector

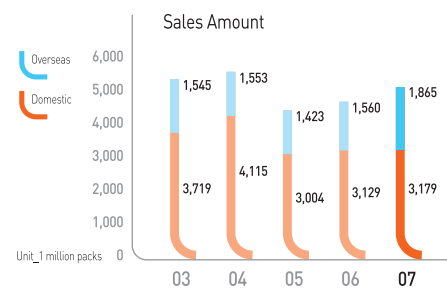
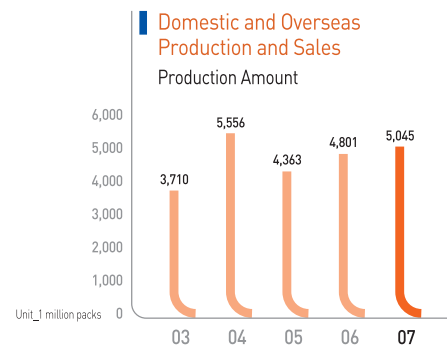
The manufacturing sector is concentrating its energies on securing a competitive edge in quality by reinforcing the infrastructure and continuously engaging in improvement activities in order to supply products that meet customer needs. We are also focusing our effort on improving our manufacturing competitiveness by redesigning business processes, and improving production and management systems.

The leaf tobacco processing sector is trying to reduce acreage to rationalize leaf tobacco inventories, and to improve the quality usability of raw materials.

The real estate business sector recorded KRW19.8 billion in sales revenues in the Jeonju manufacturing plant development project, and KRW20.6 billion in lease revenues as a result of efficient management of leased properties like KOSMO Tower.

Shareholder Status

As a result of privatization, ownership is separated from management in the corporate governance of KT&G. As of 2007, the ESOP owns 6.1% of the total stocks, the Industrial Bank of Korea 6.6%, and foreigners 52.5%.



Shareholders Return

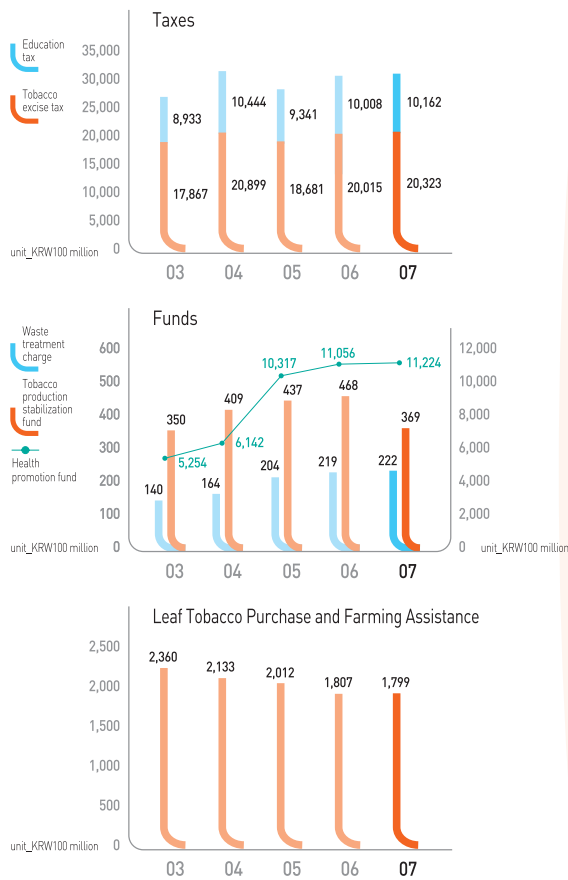
Classification	2003	2004	2005	2006	2007
Total Dividends (KRW100 million)	2,215.2	2,372.6	2,497.0	3,197.1	3,404.4
Dividend Per Share (KRW)	1,600	1,600	1,700	2,400	2,600
Dividend Payout Ratio (%)	48.2	50.2	48.4	49.2	51.5
Dividend Yield (%)	7.73	5.04	3.54	4.02	3.26
Share Buyback (KRW100 million)	671	5,010	1,150	8,570	2,694
Profit Return Ratio (%)	63	156	71	181	119



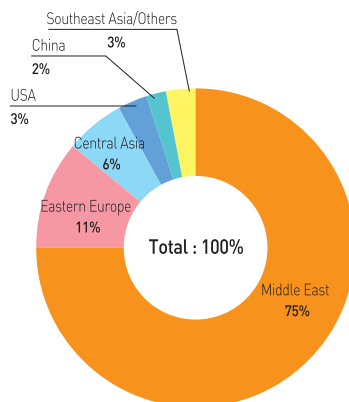
Excellent KT&G

Creating Economic Values

Economic Contributions



The Ratio of Sales by Region (as of 2007)



KT&G's Economic and Financial Contributions

In 2007 KT&G's financial contribution based on taxes and funds, such as the tobacco excise tax, the local education tax and the national health promotion fund, amounts to about KRW4,230 billion. KT&G is also contributing KRW179.9 billion to the agricultural economy through domestic leaf tobacco purchase payment and farming assistance, and contributed KRW110 billion to the Tobacco Production Stabilization Foundation.

Government Subsidies

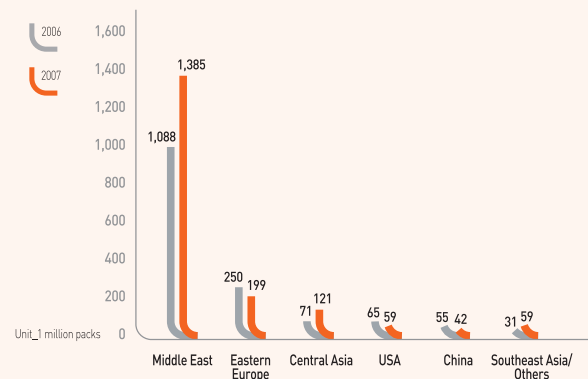
KT&G receives economic incentives through government subsidies.

Classification	2003	2004	2005	2006	2007
Tax credit for temporary investment	13,658	7,025	4,049	4,433	4,369
Tax credit for research manpower & development facilities investment	218	63	255	213	218
Tax credit for productivity improvement/specific facilities investment	42	53	102	61	117
Tax credit for energy-saving investment	17	37	107	108	137
Tax credit for research manpower & development costs	-	-	-	-	3,143

Key Overseas Business Regions

KT&G established local affiliates in key business regions like Turkey, Mongolia and Brazil, and found its way into new markets in Middle East, America and Central Asia.

KT&G is seeking overseas business goals and strategic direction to reinforce markets and brands for increased sales and profitability, and to figure out a way to make direct investments.



KT&G's Competitiveness

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Appendix

Reinforcing Employee Competencies

The Human Resources Development Institute is providing customized education programs to reinforce leadership education and help accomplish business goals. KT&G continues to provide education courses regarding new management techniques and innovation techniques, such as MBO (Management by Objectives), Clientship, meeting operation innovation and change management leadership.

Product-related Intellectual Properties

KT&G holds patents in various areas, such as product manufacturing technology, process technology, and new product development. These patents are directly applied to such practical areas as process improvement, securing new flavors and analytical technology. The recently launched "BOHEM" product is an example of an innovative product using the cigar leaf and functional filter.

R&D Activities

KT&G's Central Research Institute was opened when the Korea Ginseng and Tobacco Research Institute was merged with KT&G in March 2002. Currently the Central Research Institute consists of 5 research centers, i.e. the 'Tobacco Science Research Center', the 'Ginseng Science Research Center', the 'Health Food Research Center', the 'Bioresource Research Center', and the 'Analytical Science Research Center', with the additional parts of the 'R&D Planning Office', and the 'General Affairs Department'.

KT&G is involved in research projects to improve technological competitiveness and profitability. And we also enhance corporate value by developing new products and optimize process steps with the aim of improving the competitiveness of the company.

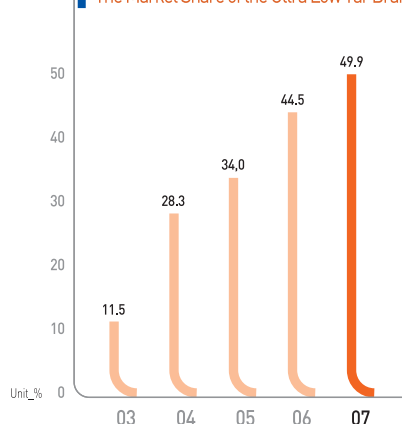
Securing the Ultra Low Tar Market

KT&G reflects the tastes of consumers in a timely fashion by means of various market researches and analyses. On this basis KT&G continues to release new products every year. In particular, the ultra low tar market, a new market KT&G created through systematic analysis of customer demands, currently accounts for approximately 50% of the entire market.

A photo of leadership training



The Market Share of the Ultra Low Tar Brands





A Beautiful World
Where Everyone Shares, KT&G!





Responsible KT&G

*KT&G, fulfilling its social responsibilities,
is a reliable prop of Korea. Thanks to
KT&G we can imagine tomorrow!*

Corporate Governance

Comparison with Best Practices in Corporate Governance

Recommendations	Adopted by KT&G	Remarks
Adoption of the corporate governance charter	○	
Adoption of the employee code of ethics	○	
Adoption of the cumulative voting system and disclosure thereof	○	
Formation of the board of directors (The majority is non-executive outside directors)	○	3 executive directors and 9 non-executive outside directors
Separation of CEO from the chairman of the board of directors or appointment of senior non-executive outside directors	○	Appointment of senior non-executive outside director
Disclosure of the details of the activities of the board of directors, attendance and pros and cons about key agendas	○	
Formation of the director nomination committee	○	
Formation of the compensation committee	○	
Formation of the audit committee (all non-executive outside directors)	○	4 non-executive outside directors
Adoption of regulations relating to the roles of the board of directors and various committees, and operating procedures	○	
Insurance of directors against liabilities at the company's expense	○	
Evaluation of the activities of the board of directors	○	
Maintenance of the independence of external auditors	○	
Confirmation of the accuracy and integrity of the financial reports made by the CEO and the CFO	○	
Explanation of the difference from best practices	○	Posted on the homepage
Disclosure in English and Korean of audit reports and occasional filings	○	

KT&G's Corporate Governance

KT&G conducts business in accordance with the decision-making of the board of directors and under the responsibility of the CEO, and intends to become a global blue-chip company by maximizing corporate value and the values of employees. KT&G complies with relevant laws and regulations, and built a core professional management system centered around the independent board of directors, thereby catering to the interests of stakeholders in a balanced manner.

Board of Directors

KT&G's board of directors consists of 9 non-executive outside directors and 3 executive directors with emphasis placed on the revitalization of the functions of the board of directors and operational efficiency.

The board of directors, as the decision-making body at the highest level, deals with what is stipulated by laws and ordinances, and what is stipulated in the articles of incorporation by the authority of the board of directors, and general matters included in the rules of the board of directors.

Current Status of the Board Members (as of 2007)

Classification	Name	Remarks
Executive Directors	Young-kyoon Kwak	CEO/Chairman of the management committee
	Kwang-youll Lee	Senior managing director/Chief marketing officer /Management committee
	Young-jin Min	Senior Managing Director/Chief Production Officer/ Management committee
non-executive outside directors	Choong-sup Kim	Chairman of the public interest and steering committee/Visiting professor of Korea University
	Jin-hyun Kim	Chairman of the board of non-executive outside directors/Audit committee/Performance and risk management committee/Chairman of the KITA research and advisory committee
	Kyung-jae Lee	Chairman of the performance and risk management committee/ Public interest and steering committee/Guest professor of Dongyang University
	Sun-gak Cha	Performance and risk management committee/ Deputy chief director of YMCA Korea
	Warren G. Lichtenstein	Performance and risk management committee/ CEO of Steel Partners Ltd.
	Yong-chan An	Performance and risk management committee/ Vice chairman of Aekyung Group
	Yoon-jae Lee	Audit committee/CEO of KorEI
	Chang-woo Lee	Chairman of the Audit committee/ Professor of the College of Business Administration, Seoul National University
	Kiu-won Kim	Audit committee/College of Natural Resources, Yeungnam University

Appointment of the CEO

The CEO candidate nomination committee consisting entirely of non-executive outside directors nominates a CEO candidate in accordance with the nominee screening criteria defined by the board of non-executive outside directors, and recommends the candidate to the general meeting of shareholders after consultation on contract terms such as management goals, etc. The CEO nominee is appointed by the general meeting of shareholders, and enters into a management agreement with the chairman of the CEO candidate nomination committee. The CEO's term of office is three years.





KT&G's Independent Non-executive Outside Directors Have Expertise

The non-executive outside directors, consisting of experts in diverse area like economy, business and finance, attend the regular BOD meetings, which are held 6 times a year, and extraordinary BOD meetings. They evaluate the performance of the management agreement, and make decisions about and supervise management activities, such as investment in other companies and new facility investment.

When appointing non-executive outside directors, KT&G reviews the qualifications of the candidates selected by the non-executive outside director recommendation committee and those recommended by shareholders, and have their independence and expertise verified through the recommendation and nomination of the general meeting of shareholders. Also, KT&G adopted the code of ethics for non-executive outside directors, and specified the roles and duties of the board of non-executive outside directors and stipulates that the non-executive outside directors should comply with the basic ethics for non-executive outside directors.

Reinforced Role of Non-executive Outside Directors

KT&G promptly provides non-executive outside directors with information necessary for them to carry out their duties so that they can correctly understand management status. In particular, when the BOD is convened, KT&G notifies the non-executive outside directors at least 3 days in advance so that they can preview the agendas sufficiently. The non-executive outside directors can visit workplaces at least twice a year independently without the presence of high-ranking management, and they can own stocks to encourage them to take part in management and ensure they fulfill their duties more responsibly. On top of that, the board of non-executive outside directors meeting is held at least twice a year.

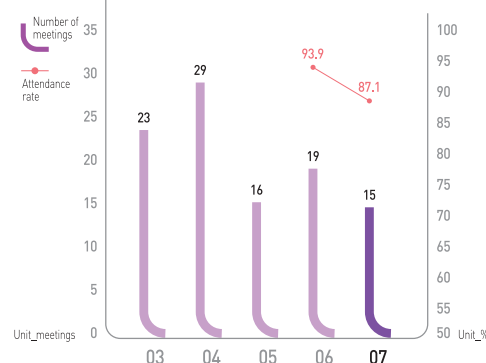
Major Activities of Non-executive Outside Directors [as of 2007]

No.	Date	No of Non-executive Outside Directors	Remarks
1	Jan 24	8	Resolution #2, requested information about the summary
2	Jan 24	8	
3	Feb 8	8	
4	Feb 12	7	
5	Feb 12	7	Resolution #1, proposal of the procedural regulation relating
6	Feb 27	6	
7	March 20	8	
8	March 20	8	
9	April 25	7	Resolution #2, additional proposal regarding video
10	June 20	8	Report #1, requested a briefing relating to the health and
11	July 2	6	
12	July 25	8	
13	Aug 13	8	
14	Oct 17	8	
15	Dec 18	7	

BOD Operations



Number of BOD Meetings and Attendance Rate



* The attendance rate is computed from 2006, covering both the executive and non-executive outside directors.



Corporate Governance

Committees Inside the Board of Directors

Public Interest and Steering Committee

- **Composition** - 1 executive director and 4 non-executive outside directors
- **Roles**
 - To vote on corporate value and ethical policy bills
 - To vote on bills relating to the code of ethics for directors and management practices
 - To vote on important bills relating to consumers and farmers growing leaf tobacco

Performance and Risk Management committee

- **Composition** - 1 executive director and 4 non-executive outside directors
- **Roles**
 - Vote on budget bills
 - To determine non-executive outside director screening criteria
 - To check current and future management risks and formulating countermeasures

Audit Committee

- **Composition** - 4 non-executive outside directors
- **Roles**
 - To review the soundness and relevance of financial activities of the company
 - To evaluate internal control systems, etc.

Management Committee

- **Composition** - 3 executive directors
- **Roles**
 - Matters relating to organizational management
 - To vote on matters relating to the installation, relocation and closing of branches

Committees Inside the Board of Directors

KT&G operates the public interest and steering committee, the risk management committee, the audit committee and the management committee inside the board of directors, and makes rational and prompt decisions. In particular, the audit committee, an internal audit organization of the board of directors, consists entirely of non-executive outside directors so that they can appropriately supervise and support the management, and enhance the transparency and reliability of financial information.

Reinforcing Education of Directors

KT&G is providing non-executive outside directors with opportunities to receive education necessary for the performance of their duties. And we are also giving them data relating to the current management status of the company on a monthly basis. In addition, KT&G holds workshops more than twice a year for intensive reviews with regard to the accomplishment of the long-term vision and its key strategies.

Evaluation of the Performance of the Board of Directors

The non-executive outside directors submit the performance evaluation report of the BOD meeting and the committees they attend every December to the board of directors. The board of directors summarizes the annual evaluation report, and announces the result every January with the assistance of external experts, if necessary.

General Meetings of Shareholders

General meeting of shareholders are divided into two different things: regular meetings of shareholders held within three months of the end of each fiscal year; extra-ordinary meetings of shareholders held in accordance with the decision of the board of directors or other laws and ordinances as occasion demands. To ensure the efficient operation of general meetings of shareholders, it is possible to organize and operate a shareholder council consisting of up to 15 shareholder representatives for the sake of efficiency.



Ethical Management

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KT&G will continue to practice transparency in management and strengthen corporate governance. To this end, we will pursue enhanced transparency and professionalism, so that we may reinforce ethical management practices within and throughout our organization.

- CEO's will to practice ethical management
(2006 Annual Report)

Reinforcing the Foundation for Ethical Management

KT&G built the ethical management system in 2001 by establishing the code of ethics, the code of ethics for directors, and the practical business ethics guideline. In particular, KT&G is operating the Code of Corporate Ethics, the code of ethics for directors, the Declaration of Compliance with Fair Trade Standards, and the ethical management system based on the customer service code and continuously conducts post evaluation via the audit office.

The code of ethics and the practical business ethics guidelines describe what must be done in respective areas, such as customers, society, environment, markets, employees, suppliers and shareholders.

In 2006 KT&G was awarded the Grand Prize at the Fourth Korea Ethical Management Award Ceremony.

Reinforcing the Strategic Ethical Management System

KT&G makes sure that new employees familiarize themselves with the code of ethics and the practical guideline by having them take the code of ethics oath. Also, we are not only emphasizing transparency and responsibility in all business areas, but also promoting the BOD's awareness of ethics and transparency. As part of this effort, the BOD of KT&G adopted the Standard Code of Conduct for Independent non-executive outside directors of Listed Companies provided by The Korea Listed Companies Association.

KT&G's Ethical Management System



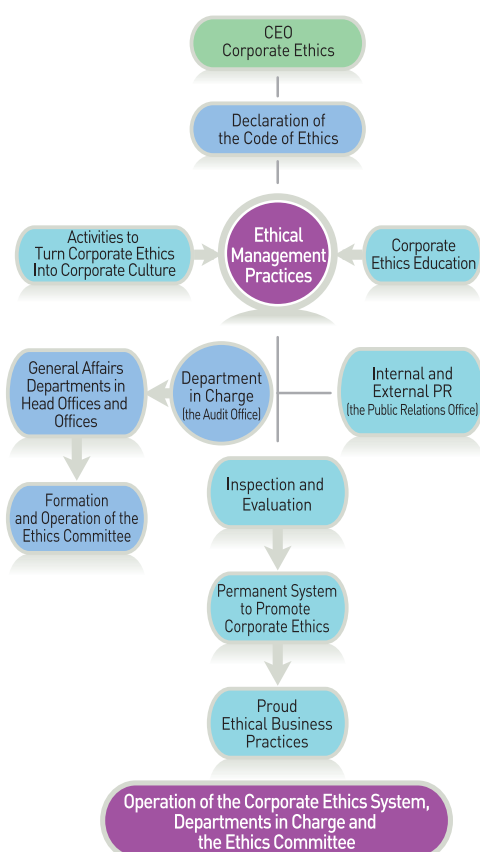
KT&G Won the Grand Prize in Ethical Management (2006)





Ethical Management

KT&G's Ethical Management Organization and operational map



Ethical Management Education Process

KT&G developed the cyber courses in ethical management to encourage employees to voluntarily practice ethical management, and made cases out of various situations likely to take place in the field.

The cyber ethics education was first carried out in 2007 for all level-2 or lower employees, and all 44 new employees completed the cyber ethical education.

Current Status of KT&G's Cyber Ethical Education

Course	Hours				Description
	Total	Lecture	Exercise	Case Other	
What is ethical management	3	3			<ul style="list-style-type: none">Definition of ethical managementAwareness of diverse cases of ethical management
Guide to ethical management	5	5			<ul style="list-style-type: none">Understanding of KT&G ethical management
Ethical management road map	5	5			<ul style="list-style-type: none">Mid-to-long-term plan for KT&G ethical management
Employee ethics	7	7			<ul style="list-style-type: none">Understanding of employees' ethics and practices
Total	20	20			

Reinforcing the Anti-corruption System

KT&G monitors corrupt employees thoroughly, and operates a strict internal management system. When detected, corrupt employees will have their pay cut or be fired. KT&G prohibited the taking of bribes, and established a procedure for reporting the receipt of entertainment and benefits from a third party, and enacted relevant internal regulations.

Incidents of Corruption by Business Unit (as of 2007)

	Classification	Description	Count	Actions taken
Sales	KT&G's internal employee	Theft of cigarettes by salespeople	1	Dismissal
Branches	Outsourcing employee	Theft of cigarettes by outsourcing employees	2	Cancellation of contract

Internal Control System

KT&G established the internal control system in January 2006, and has since operated the system to meet the requirements of the internal accounting management system and to pass the review of external auditors.

KT&G is making an all-out effort to ensure transparent management by having the working-level staff, middle managers, and executives review the five internal control components, i.e. environment control, risk assessment activities control, information and communication, and monitoring.



Ethical Management

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Code of Ethics

To transform itself into a global blue-chip company that is always customer-oriented, KT&G makes sure that all its employees think right, make right judgment and act right to fulfill the social responsibilities of the company, and seeks common interests with stakeholders.

Chapter 1 General Provisions

- (1) Scope of application
- (2) Purpose
- (3) Definition of terms

Chapter 2 Pledge to Customers

- (1) Respecting customers
- (2) Creating values
- (3) Providing values

Chapter 3 Observing Laws and Regulations, and Respecting the Order of the Free and Competitive Market

- (1) Observance of laws and regulations
- (2) Respecting the order of the free and competitive market
- (3) Acquisition and utilization of valid information

Chapter 4 Basic Ethics of Employees

- (1) Basic ethics
- (2) Successful execution of the mission
- (3) Self-improvement
- (4) Fair execution of duties
- (5) Avoiding conflicts of interest with the company
- (6) Protection of the company's properties
- (7) Prohibition of the leakage of customer and internal information
- (8) Mutual respect among employees
- (9) Prohibition of employees' giving and receiving bribes to and from other employees
- (10) Prohibition of employees' lending and borrowing money to and from other employees
- (11) Prevention of sexual harassment at work
- (12) Prohibition of improper use of the information system
- (13) Prohibition of insider trading

Chapter 5 The Company's Basic Responsibilities to Employees

- (1) Respecting employees and improvement of working conditions
- (2) Fair treatment
- (3) Fostering talents and promoting creativity

Chapter 6 Right Relationship with Suppliers

- (1) Fair trade
- (2) Pursuit of mutual development
- (3) Prohibition of unethical behavior toward suppliers

Chapter 7 Responsibility to Shareholders and Society

- (1) Rational management
- (2) Protection of the interests of shareholders
- (3) Contribution to social development
- (4) Environmental protection

Practical Business Ethics Guideline

[1] Scope of Application

[2] Purpose

[3] Avoiding Conflicts of Interest with the Company

- 3.1 Ground rule of handling conflicts of interest
- 3.2 Obligation to prevent and report conflicts of interest
- 3.3 Reporting procedure

[4] Prohibition of Giving and Receiving Bribes

- 4.1 Ground rule
- 4.2 Money and other articles that need to be reported
- 4.3 How to handle reported bribes

[5] Prohibition of Giving and Receiving Entertainment and Benefits

- 5.1 Ground rule
- 5.2 Entertainment and benefits to be reported
- 5.3 Reporting procedure

[6] Pledge of the Code of Ethics

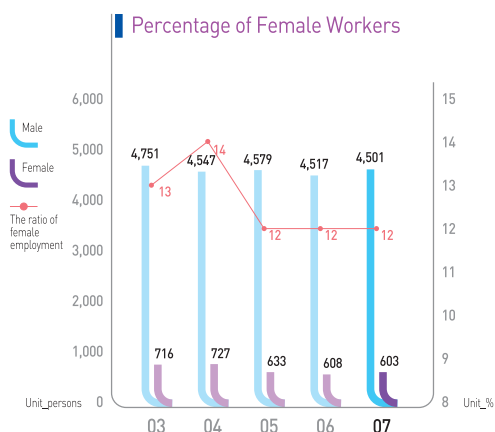
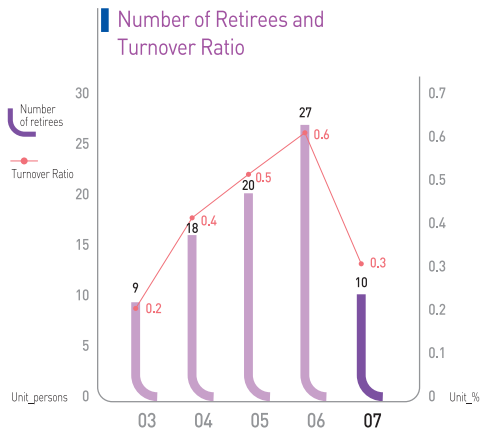
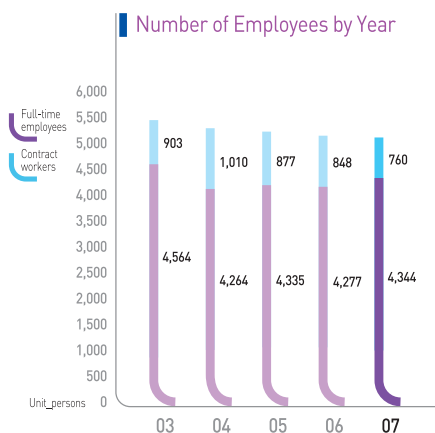
- 6.1 Written pledge, etc.
- 6.2 Storage of pledge reports, etc.

[7] Disposition of Violations





Human Resources Management



Employee Information

As of 2007 4,344 out of 5,104 employees in total are full-time employees, and 760 are contract workers. The average length of continuous service of full-time employees is about 18 years.

KT&G guarantees that the monthly wage for a new employee is 282% of the statutory minimum wage. We also recruit outstanding talents through public recruiting, and when we hire salespeople, we give first priority to local candidates.

Efforts to Protect Human Rights

To increase the awareness of sexual harassment, KT&G provided an hour-long awareness enhancement session for all employees. Also, a professional education program for prevention of sexual harassment is provided for grievance counselors.

Meanwhile, in 2007, female workers accounted for 12% of all employees at 603, and the gap in basic pay between gender has been 8.12% on average for the past 5 years.

In addition, KT&G has continued to employ an increasing number of the disabled to protect their rights, and has maintained over 2%, which is the mandatory disabled employment rate.

A total of 3 unfair labor practices were reported from 2003 to 2007. One case was dismissed, one was settled out of court, and the other one was withdrawn. There was no violation of the law.

How Unfair Labor Practices Were Handled

Classification	Type	Result	Remarks
2003	Unfair dismissal (3 RM interns)	Dismissed	Seoul Regional Labor Relations Commission
2007	Unfair dismissal (1 LM)	Settled out of court	Seoul Regional Labor Relations Commission
2007	Discrimination (1 LM)	Withdrawn	Withdrawn by the applicant

*RM: Regional Manager / LM: Logistics Manager

Prohibition of Child Labor and Forced Labor

In accordance with the stipulations of the Labor Standard Act and the International Labor Organization, KT&G complies with the provisions relating to forced labor and child labor, and there is no case of child labor and forced labor.



Establishing the Win-win Labor-management Culture

KT&G's labor union has a union-shop system: i.e. all employees level 3 or below, seasonal hands working in the leaf tobacco processing factories and delivery people must join. 4,477 employees are members of the labor union in 2007. As far as major operational issues are concerned, KT&G resorts to the labor-management conference and collective bargaining.

Also, KT&G encouraged employees to express diverse opinions and take an active part, and as a result there has been no labor dispute for the past 10 years.

Meanwhile, when it comes to important issues likely to affect employees, such as restructuring or M&A, KT&G engages in collective bargaining, and notifies employees one month in advance.

Information on the Labor Union (as of 2007)

Who joins the union	<ul style="list-style-type: none"> Employees level 3 or below (excluding audits, persons in charge of personnel and labor, drivers for level 1 or higher, section chiefs with an appointment, athletes, persons in charge of emergency plans and branch managers) Delivery people and seasonal hands working in the leaf tobacco processing factories are included. 	
Number of members	<ul style="list-style-type: none"> Total: 4,477 Clerks: 3,835 	<ul style="list-style-type: none"> Seasonal hands: 209 Delivery people: 433
Full-time members	<ul style="list-style-type: none"> Headquarters labor union 9 	
Affiliation	<ul style="list-style-type: none"> Federation of Korean Trade Unions 	
Organization	Headquarters	<ul style="list-style-type: none"> Chairperson, vice-chairperson, secretariat 12 bureaus in addition to the general affairs bureau, and 16 other departments including the organization department
	Branches	- 24 branches
	Branches under direct control	- Delivery function branches
	Local chapters under direct control	- 1 local chapter in addition to the one under the direct control of the Gimcheon factory branch

Employee Welfare system

KT&G provides employees with many welfare benefits, such as housing loans, allowances for congratulations and condolences, disaster subsidies, health examination, school expense loans, and use of recreational facilities. Also, KT&G contributed to the formation of trust and cooperation between labor and management by introducing the ESOP system. And the flexible benefit plan allows employees to choose from various items and benefits, thereby increasing employee satisfaction with welfare and benefits.

Employment of the Disabled



KT&G's Employee Welfare and Benefits

Full-time Employees

Allowances for congratulations and condolences, disaster subsidies, scholarships, kindergarten expenses, medical expenses, tuition expenses

Both Full-time Employees and Contract Workers

Expenses for events (sports meets), articles for congratulations and condolences, selective welfare, self and spouse health examination





Human Resources Management

Basic direction of education development for 2007

- Reinforcing the employees' commitment to the organization by laying down the foundation for value integration at the group level
- Fostering leaders for sustainability management and reinforcing strategic business partners
- Increasing opportunities for self-improvement by building and supporting a site-centered learning system



Development of Strategic Human Resources

To cope with the changes in the global management environment and accomplish the new vision, KT&G established the value sharing strategy, the innovation strategy, and the learning assistance strategy to help employees develop their career.

From the moment they join the company to the moment they retire, KT&G provides education to help accomplish management goals in consideration of the strategic direction of the company and personal preferences. Also, we are trying to find ways to make the education directly applicable to actual jobs through various types of evaluation, e.g. problem-solving by education course, position and job classification.

In particular, the leadership training helped define the roles and required competencies by position, and emphasizes the 'sense of ownership', 'mutual trust', 'passion and initiative', 'positive thinking', the 'will to improve oneself', and 'autonomy and responsibility'.

As of 2007 the average length of job training per person was 48 hours, and that of leadership training was 63 hours. The total hours spent on all training and education per person were 169 hours.

Reinforcing 'Cyber Education (E-learning System)'

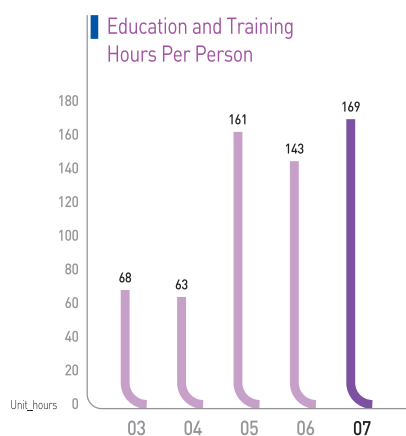
To reinforce the competency of employees, KT&G offered cyber education in three areas, i.e. 'leadership', 'marketing' and 'management support'. We are trying to help them gain a wider understanding of our business areas and improve their job competencies by means of various types of training, e.g. basic computer skills, languages, business-related laws and regulations, and marketing strategy and management.

Providing Education Programs for Life Plan Support

KT&G offers 'life plan support education programs' to help employees prepare for their life after retirement and develop their careers. Those who are planning to retire will receive education relating to financial planning and preparation for life after retirement. While they are on active duty, they receive not only education related to their jobs, but also lifelong education about various fields, such as reading and computers.

Document Security and Information Protection Education

KT&G held seminars for those in charge of security in each workplace to publicize the importance of corporate security, and is improving its security readiness. In 2007 39 people participated in the education, and exchanged diverse opinions about the importance of industrial security, how to improve security, and what needs to be improved.





Building the Industrial Safety and Health System

In accordance with the Industrial Safety and Health Act, KT&G appointed safety managers for workplaces, established the 'safety and health management guideline', and the 'accident-free movement guideline', and is taking the lead in preventing industrial accidents. Also, KT&G is inspecting various accident-prone elements, such as fire, through events like the 'Safety Inspection Day' held in individual workplaces.

Each workplace operates the industrial safety and health committee, and provides safety and health education and inspections in accordance with the safety and health management guideline, and engages in fire-prevention activities. The regular safety inspection team, consisting of emergency planning teams, maintains firefighting facilities and equipments to prevent fire, instructs how to act in case of fire, and checks education and training status.

On top of that, KT&G makes sure that working conditions are maintained and improved and labor-management relations are stable for the sake of industrial safety and health during collective bargaining.

Industrial Health and Safety Issues Contained in the Collective bargaining

Description
<ul style="list-style-type: none"> Safety inspection Appointment and designation of safety and health managers, etc. Honorary industrial safety supervisor Safety and health management regulations Guaranteeing industrial safety and health activities Right to stop work Safety and health education Wearing safety gear Measuring working environment Operating health management offices Health examination (including temporary health examination) and post measure

Number of Committee Members in the Industrial Safety and Health Committees

Employer Member	Employee Member	Remarks
Emergency planning office manager	HQ labor union branch manager	Chairperson
Head of the general affairs department	Deputy branch manager	
Safety manager	Head of the general affairs department	Secretary
Health manager	Chairperson of the support department	

Classification of Safety Inspections

The 'Safety Inspection Day' Event

- On the fourth day of each month / in each workplace

Regular Safety Inspections

- Twice a year, once in the first half of the year, and once in the second half / only in those workplaces which had industrial accidents in the previous year or had no inspection for two years

Special Safety Direction and Inspection

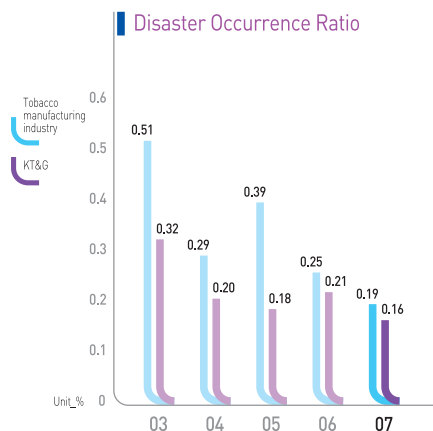
- About 20 days after the occurrence of an industrial accident / checking whether advance and post safety education in places where accidents happened is necessary, etc.

Safety Inspections





Human Resources Management

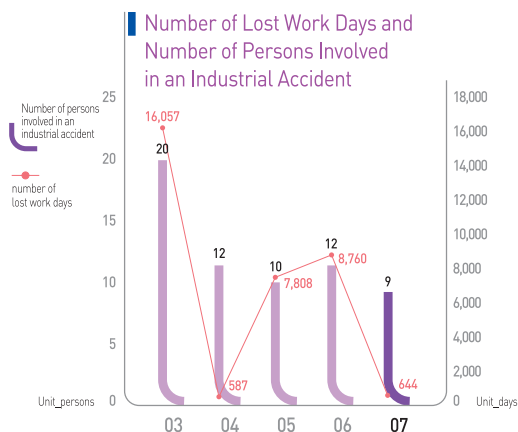


Safety Management Education

KT&G is preventing industrial accidents by giving safety rules and related information to employees. Also, if accidents do occur, KT&G effectively handles them, and tries to minimize damages by continuously providing safety management education.

Classification of Safety Management Education

Classification Contents		Details
External Educa- tion	Monthly safety manager training	<ul style="list-style-type: none"> For HQ safety managers Enhancing the expertise of safety managers, and maximizing the efficiency of accident prevention through exchange of information between members
	Supervisor education	<ul style="list-style-type: none"> For job-site team leaders, section chiefs, department heads and safety managers Enhancing supervisors' knowledge of their duties, and maximizing the application of safety and health policies to job sites
	Safety management training on consignment	<ul style="list-style-type: none"> For safety and industrial accident insurance managers Enabling people in charge of safety to share information by means of on-site training on consignment in exemplary workplaces in terms of safety management
Internal Educa- tion	Safety and health manager in-service training	<ul style="list-style-type: none"> Providing safety and health education through visits to internal sites Providing working-level staff with skills and know-how
	3.3 education practicalization	<ul style="list-style-type: none"> 3-minute safety education prior to the start of work, and 3 minutes of cleaning after work Duration: 20 days a month X 6 minutes a day = 120 minutes Guidelines for safety gas control, fire extinguisher, and other trainings for various machinery use, etc.



Publication of Industrial Accident Casebook

To prevent industrial accidents and ensure that all employees comply with safety rules, KT&G published the industrial accident casebook. This casebook analyzed the industrial accidents over the past five years by type. We are working hard to prevent similar industrial accidents and contribute to improvement of productivity.

KT&G built the industrial safety and health system, provided safety management education, and published the industrial accident casebook. As a result of these proactive efforts, the number of people involved in industrial accidents was 63 over the 4-year period from 2003 to 2007, and the accident rate for 2007 was 0.16%, lower than the industry average (0.19% as of 2007). In addition, as there was no death related to industrial accidents in 2007, we were able to cut down on the number of lost work days substantially.



Win-win Cooperation

Imagine & Think Next



CEO's Message
KT&G's Highlight
Value-Creating KT&G
Economy_Excellent KT&G
Society_Responsible KT&G
Environment_Eco-Friendly KT&G
Appendix

Building the Win-win Cooperative Partnership

For a win-win cooperative relationship with suppliers, KT&G is making concrete efforts to support them, e.g. technical assistance and guidance. The production management office of the head office provides process inspection service and technical guidance for suppliers, and the Gwangju plant distributed an 'environment-friendly case manual' to suppliers in a bid to improve the competitiveness and environment management capability of suppliers.

In 2007 suppliers received assistance in 10 cases, 29 cases less than in the previous year. Advance quality inspection was done for all new products in 2006, but it was done only for new products using new raw materials and subsidiary materials.

Complaints and improvement requests from suppliers are received by the procurement office, and handled by internal processes.

Support for Suppliers

(Unit: cases)

Classification	2003	2004	2005	2006	2007
Technical Assistance	-	-	7	39	10

Establishing Policies to Prevent Impediments to Fair Competition

In 2002 KT&G adopted the Compliance Program (CP: fair trade compliance program within the company) at the 'KT&G CP Declaration Ceremony'. For systematic operation of the program, KT&G raised the employees' awareness about unfair trade practices through the Fair Trade Act compliance education, simulation inspection, the CP handbook, and the amendment of related bylaws.

In 2007 KT&G further reinvigorated the Compliance Program, implemented CP step 1 and core elements and disclosed related materials. Meanwhile, KT&G is planning to implement CP step 2 in 2008.

Disclosure

KT&G improved its disclosure system to increase customers' accessibility to information and expand the scope of disclosure. Also, the company modified the customer Q&A bulletin board in its homepage to improve customers' accessibility.

Supplier Complaint Handling Process



Cases of Unfair Trade Practices

Time	Description	Remarks
September 2006	Suspected of advertising the efficacy of ESSE SOUN bamboo activated charcoal and loess paper in an exaggerated way	Caution
July 2007	Suspected of unfair customer incentives, such as providing retail stores with display expenses and free products	TBD (scheduled for March 2008)





An Open World, A Happiness Network

Ideals

Tasks

Social
Responsibility
Linked to
the Business

Supporting
Culture,
Arts and Sports

Reinforcing
National
Competitiveness

Social Welfare

Employees'
Social
Contributions

Environmental
Protection

KT&G

Social Contribution

Positioning
Corporate Citizenship
that Fulfills Social
Responsibilities and Creates
Social values

Social Contribution

Imagine & Think Next



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Establishing Mid-to-long-term Social Contribution Strategies

As it was necessary to systematically operate social contribution activities related with the business, and to develop an independent program, KT&G established the mid-to-long-term social contribution strategies.

Mid-to-long-term social contribution is divided into basic activities related to the business and activities specialized for KT&G. Its aim is to continuously engage in social contribution activities by building partnership with external stakeholders like NGO's. KT&G is also planning to use the integrated social contribution management system (www.ktngtogether.com) to enhance interest in social contribution and encourage social contribution.

Social Responsibility Linked to the Business

Reinforcing Youth Smoking Prevention Activities

KT&G is aware that teenager smoking is one of the most serious problems of modern society, and has formulated concrete measures to prevent it.

First of all, to prevent teenagers from accessing cigarettes, KT&G produced 50,000 copies of the brochure describing the 'legal age to smoke and how to verify age'. KT&G distributed them to cigarette retailers, and continues to give guidance to retailers by training salespeople.

Also, realizing that the mindset of young boys and girls is more important than anything else to preventing teenager smoking at the source, KT&G is in the process of developing a youth smoking prevention program, including the building of their values, and is planning to join hands with NGO's to better execute the program.

Environment Improvement Projects in Consideration of Non-smokers

KT&G is trying to find ways to eliminate the inconvenience or discomfort both smokers and non-smokers may feel about smoking and respect each other.

In 2007 KT&G installed and maintains 15 smoking rooms with smoke control systems in large public places like airports, and installed about 5,700 public waste baskets in places like highway rest areas in an effort to improve smoking environment.

On top of that, as part of the public campaign for smoking etiquette, KT&G made and distributed 20,000 portable ash trays, and ran printed advertisements about smoking etiquette in weekly magazines. KT&G also held the 'Let's Make a Better Tomorrow' UCC (User Created Contents) Festival, and put insert cards in 2.5 million packs of Airang.

KT&G will continue the smoking etiquette public interest campaign utilizing the banner of Internet portal sites, and join hands with local governments and NGO's to establish a proper smoking culture.



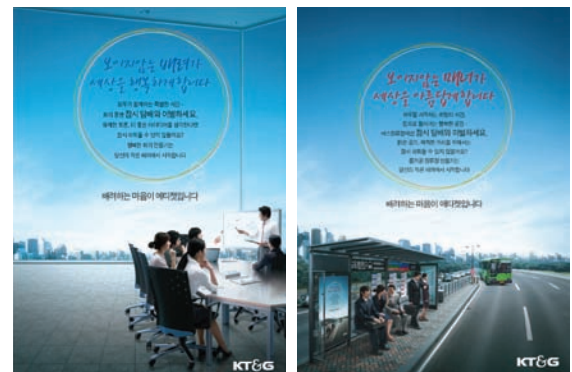
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Smoking Etiquette Public Interest Campaign

• Insert Cards



• Smoking Etiquette Printed Advertisements





Social Contribution

KT&G Welfare Foundation Activities

Happiness Network Operations

Happiness Network Welfare Center

- Management of those eligible for home care service, life support, psychological and emotional support, health and medical support, support for low-income children, management of volunteers, local network projects

Happiness Network Volunteer Center

- Cooperation Club
- KT&G Senior Volunteer Group
- Family Volunteers
- Post disaster restoration work
- College Student Overseas Volunteers
- Provision of volunteer services

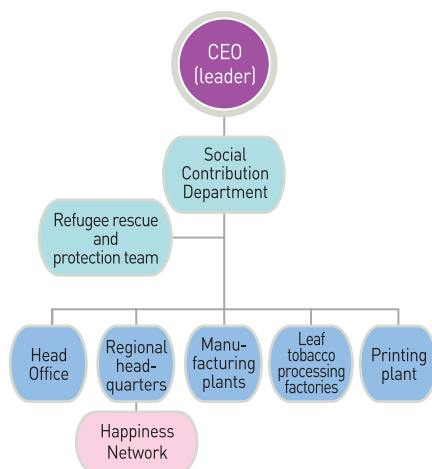
Social Welfare Assistance

- Vehicle support for social welfare foundations
- Welfare programs for the elderly
- Support for repair and renovation of unauthorized facilities

Internet Welfare

- 1004 KT&G site (www.1004ktng.com)
- Happy presents (www.ktngwelfare.org)
- Online sign language game (www.ktngwelfare.org)

KT&G Employee Welfare Service corps



Social Welfare

Social Welfare Through the KT&G Welfare Foundation

The KT&G Welfare Foundation engages in Happiness Network, Social Welfare Assistance, and Internet Welfare. These projects involve home care service, College Student Overseas Volunteers, social welfare vehicle support, welfare for the elderly, and online welfare projects.

In addition, the KT&G Welfare Foundation and the Sunny Korea Welfare Foundation paid part of the medical expenses for low-income children in Korea, Vietnam, Laos and Inner Mongolia of China with congenital heart defects and incurable diseases. Also, since 2004, KT&G has joined forces with Seoul National University Hospital to provide volunteer medical service in Uzbekistan, and transferred latest medical knowledge and invited children with incurable diseases for treatment.

KT&G provided 1,300 and 700 kerosene heaters for Iraq and Afghanistan respectively, and offered 11,520 blankets to Iran which was shaken by a powerful earthquake. In addition, KT&G gave medicines like antibiotics and antipyretics to North Korean children.

Employees' Social Contribution

KT&G is trying to raise the internal and external will to participate and settle the contribution culture in the organization through community-based participatory volunteer work.

In 2007 workplaces and branches organized volunteer groups of their own free will, and are in operation. These volunteer groups visit social welfare facilities and engage in environmental volunteer work.

On top of that, KT&G organized the refugee rescue and protection team within the employee welfare service corps, and is planning to engage in rescue activities for refugees suffering from annual natural disasters. To this end, KT&G will enter into an agreement with the Korean Red Cross, work closely together, and have the rescue team take the 'rescue e-learning' course, and learn what to do in a rescue through the manual.

Environmental Protection

Support for Environmental Organizations and Research Activities

KT&G is well aware of the importance of environmental preservation, and wants to contribute to clean environment by participating in the environmental protection movement and supporting environmental organizations.

KT&G's regional headquarters, manufacturing plants and leaf tobacco processing factories join hands with local governments and local environmental organizations to cooperate with them and support their research activities.





Reinforcing the National Competitiveness

Supporting Bio, Medical Science, Academics and Traditional Culture

KT&G is supporting medical research organizations for the study and treatment of incurable diseases. It also supports financially strapped academic organizations, and is planning to select and support 1 intangible cultural property every 2~3 years.

Next-generation Core Talent Promotion Program

To improve the competitiveness of the company and the country by fostering outstanding core talents, KT&G is going to establish and operate a scholarship foundation. Its main business is divided into scholarship programs for Korean elementary, middle and high school students and scholarship programs for Korean students studying overseas (master's and doctoral programs).

Sponsoring Culture, Arts and Sports

Sangsang Madang (ground of imagination) and Sangsang (imagination) Art Hall

KT&G, as a sponsor of culture and arts, established the 'Sangsang Art Hall', and the 'Cultural Planet Sangsang Madang' to support creative works of art. It is planning to support cultural academies like creative education and community sites as well as performances to encourage people in the cultural sector and common people to be more actively exchanging with each other.

The KT&G Sangsang Madang, which opened in September 2007, has been visited by a total of 120,000 guests since its opening until the end of December. Through its strategic integration with the online Sangsang Madang, it enabled the general public to gain online and offline access to performances and cultural contents, such as movies, photographs, cartoons and literature.

Sangsang Univ

With the aim of instilling ambition and the spirit of challenge in college students to lay the foundation for imaginative development, KT&G has been providing integrated educational programs for college students since 2003. Currently it operates a marketing school, and hosts the marketing league and the advertising contest, firmly establishing itself as one of the best marketing experience programs in Korea.

Sports Teams

To contribute to the development of domestic sports, KT&G operates a basketball team, a volleyball team, a table tennis team, and a badminton team. It is going to operate basketball camps, sponsor sports agencies like the Korea Football Association, and hosts local amateur sports competitions. By supporting sports KT&G attempts to effectively contribute to sports.

As far as the basketball team is concerned, its key players lay aside a certain amount of money after each game. Also the team donates the same amount in a matching grant to sponsor social welfare organizations and help needy children in Anyang.

KT&G Sports Teams



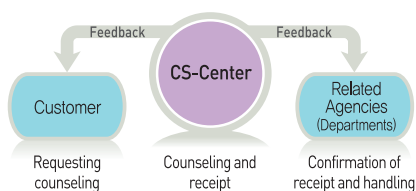
Cultural Planet Sangsang Madang



Customer Satisfaction Management

General Counseling and Product Claim Handling Process

I. General Counseling Process



II. Product Claim Handling Process

01. Exchange by Postal Service



02. Employee Visit



Communication with Customers

For the convenience to ask questions about products, make suggestions, propose ideas, and access a variety of information on product purchasing, KT&G is offering the Q&A service through its homepage. Also, through its 'Sinnungo' corner KT&G recommends exemplary cases and employees, and allows customers to post customer suggestions and opinions as well as wrongdoings related to business and unfair practices in handling customer grievances.

The Sinnungo System



Revitalization of Customer Counseling and Product Claim Process

KT&G's customer counseling system is divided into general counseling concerning 'health, tobacco policy, marketing and general matters relating to the company' and product claims concerning 'cigarettes, materials, packing process and distribution'.

The CS-Center prepares weekly and monthly reports to share the contents of counseling, and reinforces communication with brand managers (BM) and continuously communicates with customers to improve quality. The counseling process is monitored on a real-time basis, and problems occurring in this process and solutions thereto are discussed in debates and education programs.

Number of Complaints/Improvement Ideas Received and Number of Improvements

Classification	2003	2004	2005	2006	2007
Product claims	-	695	997	1,283	1,051
Cases of improvements	-	305	441	552	291

* The CS-Center was opened in 2003.

Meanwhile, product claims are mostly related to subjective and relative complaints of consumers about the taste and absorption force of cigarettes. KT&G reflects customers' opinions as much as possible by voluntarily exchanging products.



Disclosing Product Information to Customers

KT&G is printing warnings on the packaging paper for domestic cigarettes and in advertisements according to the Tobacco Business Act and the National Health Promotion Act. On products exported overseas KT&G is printing warnings in compliance with the laws of the importing countries, and in countries that do not legally require any warning, it prints warnings for the sake of consumers' right to know. Also, as far as expressions likely to cause confusion in consumers are concerned, KT&G will comply with international standards.

On top of that, to inform consumers of the danger of smoking to health, KT&G is planning to print warnings in a way that does not impair the product identity. Currently KT&G discloses tar and nicotine contents to guarantee customers' right to know.

Product Researches to Lower the Harm of Smoking

Developing and researching products that minimize the harm of smoking is an obligation of all tobacco companies including KT&G. To this end, we have continued to conduct researches on products with total or individual smoke components reduced, or new types of products.

Development of and Researches on Products to Reduce the Harm of Smoking

Development and Release of Ultra Low Tar Products

- 1mg of Tar: THE ONE, INDIGO, RAISON BLACK, ESSE ONE, ESSE SOUN
- 0.5mg of Tar: THE ONE 0.5, ESSE SOUN 0.5

Details of Harm-reducing Researches

- Researches on the technology for reducing specific harmful components
- Development of and researches on low sidestream smoke

Main contents of the Framework Convention on Tobacco Control

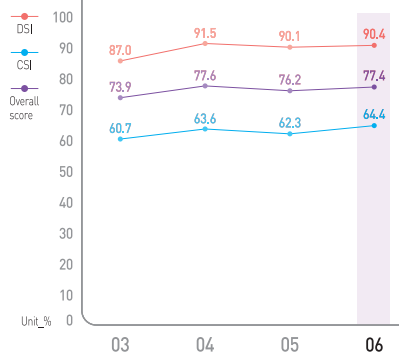
- Prohibiting all cigarette advertising, sales promotion and sponsoring in the signatories to the convention within 5 years after the convention goes into effect
- Making it mandatory to print warnings or illustrations on at least 30% of the total area of the cigarette pack
- Prohibiting the use of confusing phrases such as 'low tar', 'mild', 'light', etc.
- Taking measures to protect non-smokers from indirect smoking in public places
- Preventing youths from accessing cigarettes and prohibiting sales promotion for selling cigarette products
- Raising international funds to support developing countries
- Establishing strategies for banning cigarette smuggling
- Expanding national research plans in the field of cigarette control with regard to signatories and promoting technical cooperation and information exchange





Customer Satisfaction Management

Result of KT&G's own Customer Satisfaction Survey



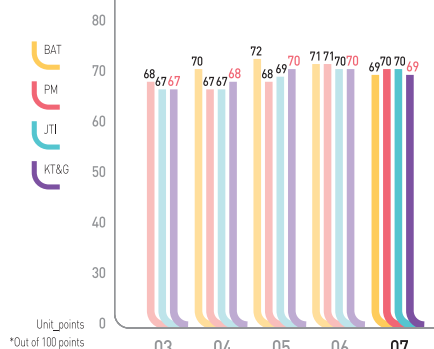
Customer Satisfaction Management

KT&G is conducting the 'Customer Satisfaction Index (CSI)' survey of adult smokers across the country, and the 'Dealer Satisfaction Index (DSI)' survey of retail store owners selling KT&G products or salespeople. The surveys ask questions about product quality, corporate image (trustworthiness), kindness of salespeople, and support necessary for sales, and satisfaction scores are increasing little by little each year.

In 2006 the overall customer satisfaction score increased 1.57% over the previous year, and KT&G got good scores in the corporate image (trustworthiness) and 'cost performance' category of the CSI survey and the 'salespeople service' category of the DSI survey.

Meanwhile, in case of the National Customer Satisfaction Index (NCSI) survey, its scores were lower in 2007 than the previous year, but its scores has been on a par with comparable companies since 2003 thanks to its diverse efforts to improve quality and customer-oriented attitude with the aim of consequently improving customer satisfaction.

National Customer Satisfaction Index (NCSI)





Establishing Marketing Standards

KT&G feels an enterprise-wide responsibility for unfair management practices, and has continued to provide education for salespeople in areas like legal sales activities, prohibition of unfair practices and establishment of a fair market order. Internally, KT&G made the 'marketing guidelines' in December 2006, established a new framework of marketing, and has been trying to find ways to put them into practice.

Compliance Efforts Related to Marketing

Sequence	Description
1	<ul style="list-style-type: none"> Information on educational materials concerning refined sales activities Education for fair competition and sales activities in stores
2	<ul style="list-style-type: none"> Sending official letters in the name of the head of the marketing office to convenience stores (CVS) Delivering KT&G's position on establishment of a fair market order to key CVS operators
3	<ul style="list-style-type: none"> Giving instructions to eradicate unfair sales activities Calling for upright sales in compliance with the corporate ideals
4	<ul style="list-style-type: none"> Giving strong instructions to eradicate unfair sales activities Reconfirming its will to ensure fair competition in the market and sales activities and warning that violators will be held responsible strictly
5	<ul style="list-style-type: none"> Adhering to the principle of fair competition Disseminating cases of illegal and unfair practices
6	<ul style="list-style-type: none"> Operating Restart in the second half of 2006 Corporate-wide activities faithful to the basics Establishing the management goal for on-site implementation and giving incentives for motivation
7	<ul style="list-style-type: none"> Establishing and operating KT&G marketing standards and systematically conforming to them Eliminating unfair sales activities and risks Obtaining definite promises for fair competition
8	<ul style="list-style-type: none"> Holding a conference on enhancement of the ability to conform to marketing standards Improving and adjusting the execution system for enhancing the ability to conform to the standards
9	<ul style="list-style-type: none"> Providing education regarding sales activities faithful to the basics under the supervision of the general manager Improving and adjusting the execution system for enhancing the ability to conform to the standards
10	<ul style="list-style-type: none"> Providing education in conjunction with courses for branch managers Explaining marketing principles related to business Conforming to marketing standards





Righteous and Sound Company,
KT&G!





Eco-Friendly KT&G

*It has something attractive to it.
We believe in the power of nature alive
in the hearts of those with passion!*



Environmental Management System

Internal and External Environmental Changes

- The global scale of the strategy for coping with climate change due to global warming
- The emergence of performance-oriented environmental management to become a global blue-chip company
- The emphasis on environmental soundness and fulfillment of social responsibilities for sustainability management



The Direction of the Environmental Management System

- The improvement of the environmental management system
- The establishment of environmental management strategies and road map
- 'Select and focus' management of key environmental jobs
- The enhancement of the environment-friendly corporate image
- The systematization of environmental R&R and reviewing organizational reinforcement

Environmental Management Plans

To establish the environment-friendly management system for sustainability management and fulfillment of social responsibilities, KT&G will engage in such activities as environment-friendly plant management, minimization of pollutants, enhancement of employees' environmental consciousness and social contribution activities. Also, it will establish the organizational mission for environmental management and practical strategies. To this end, the main office will take charge of overall supervision of environmental management. The workplaces will also remove environmental control risk factors to reinforce the ability to put environmental management into practice.

Minimizing emission of pollutants by systematically managing emissions and operating optimal facilities

Minimization of Pollutants

Enhancing Employees' Environmental Consciousness

Contributing to the sustainability management of KT&G by improving environmental consciousness thoroughly

Pursuing co-prosperity with local communities by developing and carrying out various give-back-to-society programs

Engaging in Social Contribution Activities

Environment-friendly Management of Plants

Realizing clean factories by eliminating environmental risks and managing plants in an environment-friendly way





A Performance-oriented Environment-friendly Management System

Since 2000 KT&G has been stationing environmental management staffs in the plant management departments of the production management office under the manufacturing headquarters. With this process, it can perform environmental duties in an integrated and systematic way in the environmental management system focused on compliance with laws and regulations. In June 2005 KT&G installed an environmental department in each manufacturing plant. Also, it holds regular workshops for environmental staffs in a bid to share environmental management information and reinforce environmental management with focus on shop floors.

However, at the floor shops more emphasis was placed on administrative aspects than on business aspects. As a solution to this problem, KT&G established and operates a mid-to-long-term environmental management plan and is going to spread environment-friendly management activities in each department and workplace.

Currently the 4 manufacturing plants acquired the ISO14001 certification, and operate the environmental management system. The leaf tobacco processing factories and the printing plant are planning to acquire this certification in 2008. However, KT&G will not simply settle for compliance with regulations and guidelines. Rather, it is aiming to establish and execute strategies capable of leading environment-friendly management. To this end, it will pursue environment-friendly management in phases, and introduce environmental management programs like the environmental performance evaluation system to operate a performance-oriented environmental management system.



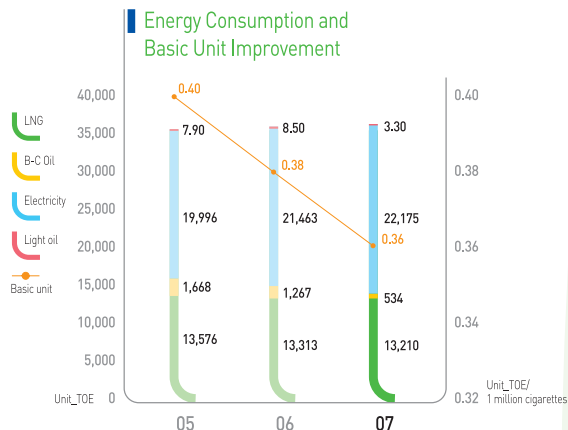
Eco-Friendly Management Road Map

	Key Short-term Tasks (~2010)	Key Long-term Tasks (~2015)
Environment-friendly Plant Management	<ul style="list-style-type: none"> To establish an inter-departmental cooperative system for environmental management To benchmark leading companies To make an agreement of Guidelines on Green Purchase with suppliers To monitor environmental management status, etc. 	<ul style="list-style-type: none"> To be designated as an environment-friendly enterprise To raise the level of green purchase To promote exchange with global leaders
Minimization of Pollutants	<ul style="list-style-type: none"> To improve the efficiency of pollutant prevention facilities To make aggressive environmental investments for rainwater prevention facilities To monitor pollutant discharge status of workplaces To improve corporate image by eliminating grievances To decrease pollutants and processing costs by means of site-by-site management, etc. 	<ul style="list-style-type: none"> To improve and evaluate suppliers' environmental management capabilities To enhance the ability of employees to be familiar with the environmental management manual and its practice
Enhancement of Employees' Environmental Consciousness	<ul style="list-style-type: none"> To provide environmental education continuously To have environmental staffs attend legally required education programs and technical seminars To have environmental staffs benchmark companies excellent in environmental management, etc. 	<ul style="list-style-type: none"> To continuously enhance environmental consciousness
Social Contribution Activities	<ul style="list-style-type: none"> To develop working items in consideration of the characteristics of the manufacturing group To cooperate with the KT&G Welfare Foundation for developing donation programs To develop a bio-diversity protection program To participate in local environmental activities and strengthen ties with stakeholders, etc. 	<ul style="list-style-type: none"> To continuously engage in social contribution activities



Environment-friendly Plants and Factories

* Environmental data reflects the current status of the 7 workplaces
(4 manufacturing plants in Sintanjin, Gwangju, Yeongju and Wonju, 2 leaf tobacco processing factories in Gimcheon and Namwon, and the Cheonan printing plant).



Coping with Climate Change

Directions of Energy Management

To accomplish the energy management goal

To reduce manufacturing costs

To promote energy-saving mindset

To establish the energy management system

To save the amount of energy use by active energy management

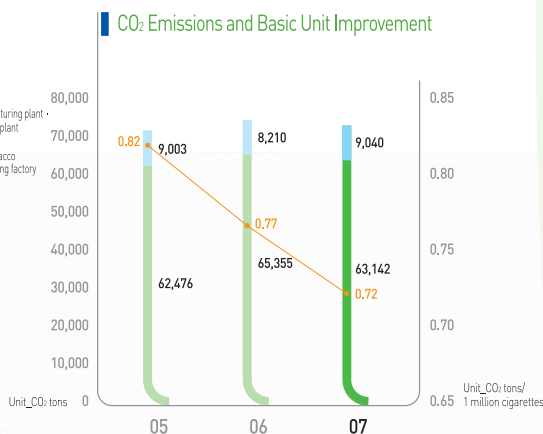
To reduce the cost of energy use by repairing and replace facilities continuously

To operate education of mindset improvement of employees and to publicize it

Energy Management Goals

KT&G is enforcing performance management to efficiently use energy and reduce energy consumption. We are reducing manufacturing costs by replacing old facilities and installing energy-saving facilities, and we are improving work efficiency by preparing the environmental management manual and the detailed management guidelines. Also, KT&G entered into the Voluntary Agreement (VA), and is enforcing it to proactively cope with tougher environmental regulations. As a result of these efforts, KT&G's total energy consumption in 2007 was 35,922TOE, a 0.36% drop from the previous year, and the basic unit was improved by 5.3% over the previous year.

CO2 emissions were 72,183 tons, a 1.9% drop from the previous year, and the basic unit was improved 6.5% as compared to the previous year.



Calculation of Greenhouse Gas Emissions

1. Energy Consumption

Fossil fuel (light oil, B-C oil, LNG, etc.) and electricity were included in the total annual energy consumption of KT&G workplaces. However, the indirect greenhouse gas emissions due to the energy consumption in offices and traveling employees were not included.

2. The Caloric Value by Energy Source

The caloric value by energy source was calculated on the basis of the data provided by KEMCO (Korea Energy Management Corporation). It was 9,050kcal/L for light oil, 9,900kcal/L for B-C oil, and 10,550kcal/NM2 for LNG.

3. Greenhouse Gas Emission by Energy Source

Greenhouse gas emission factors were based on those provided by the Intergovernmental Panel on Climate Change (IPCC). It was 20.2kg-C/GJ for light oil, 21.1kg-C/GJ for B-C oil, and 15.3kg-C/GJ for LNG. We calculated the emission factor of electricity consumption on our own on the basis of the electricity consumption and fuel consumption of the Korea Electric Power Corporation (2007) statistics, and 122.0kg-C/MWh was applied.

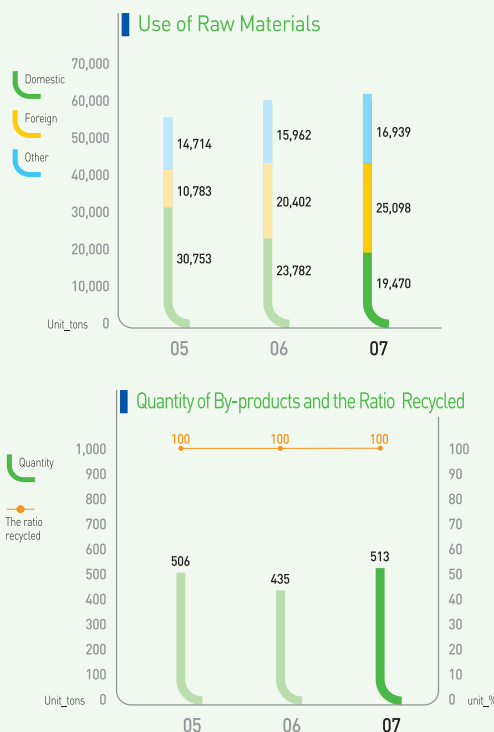


Fuel Consumption

KT&G's products go through the processing process and the manufacturing process until they are shipped. The leaf tobacco processing process refers to the process of inputting several types of leaf tobacco according to product-by-product standards and processing them in a way fitting the characteristics of products.

The manufacturing process refers to the process of making leaf tobacco prepared into cigarette product. In this process filters are attached and cigarettes are packaged so that the leaf tobacco acquires product values.

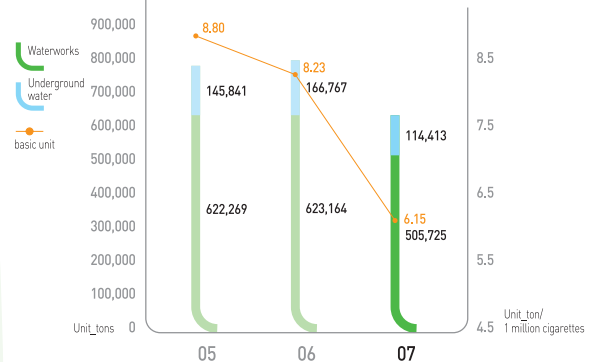
As described above, the main ingredient used in the processing and manufacturing process is leaf tobacco, and currently KT&G used both domestic and foreign leaf tobacco. Also, all the byproducts of the leaf tobacco processing process are recycled.



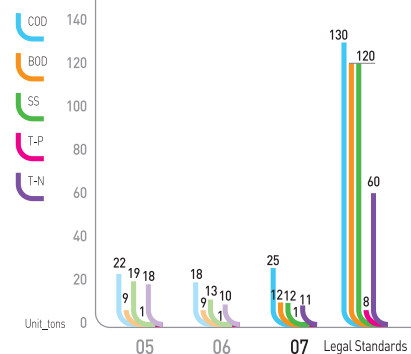
Water Quality Management

KT&G manages water quality within 20% of the legal standards. To stably lower BOD (Biochemical Oxygen Demand) and SS (Suspended Solids), which are items related to the enforcement of the total water pollution load management system, it manages sources and repairs facilities on a regular basis. The Sintanjin manufacturing plant checks water quality through the regular analysis of components, and replaced various facilities with water-saving types in 2007. Also, education was given at sites where a large quantity of water is used.

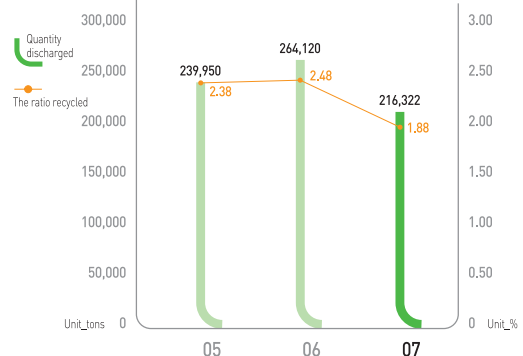
Water Use and Basic Unit Improvement



Concentration of Water Pollutants Compared to the Legal Standards

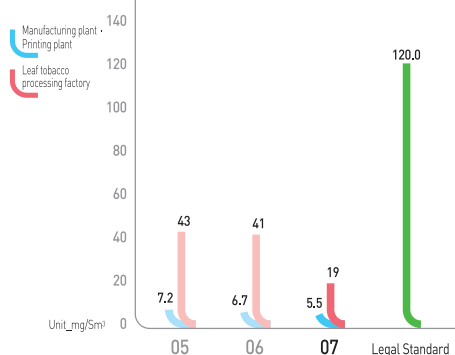


Sewage and Waste Water Discharge and the Ratio Recycled

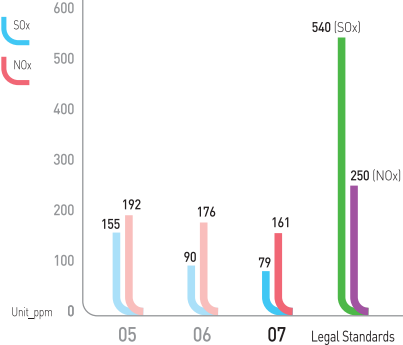


Environment-friendly Plants and Factories

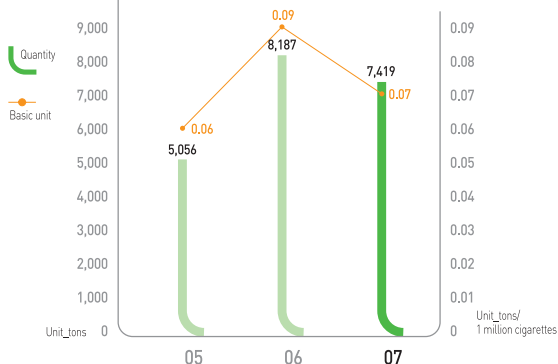
Concentration of Dust Emissions as Compared to The Legal Standard



Concentration of Sulfur and Nitrogen Oxides as Compared to the Legal Standards (2 Leaf Tobacco Processing Factories)



Quantity of Waste Matters and Basic unit improvement



Air Quality Management

As a result of systematic improvement and management of dust-emitting facilities, the concentration of dust emissions in the manufacturing plants and printing plants was 5.5mg/Sm³ in 2007, an 18% drop from the previous year, and that of the leaf tobacco factories was 19mg/Sm³, a 53.6% decline from the previous year. KT&G has continued to make efforts to reduce the deviations of dust concentration occurring in some workplaces. And we try to reinforce environmental education for related staffs, and to find solutions to problems by increasing investment in facilities.

To effectively prevent a foul smell, the Gwangju manufacturing plant installed a bio system that uses bio-degradability. In addition, for the sake of win-win cooperation with local residents near the plants and factories, local governments and NGOs, it is developing various programs at the corporate level and in accordance with the actual conditions of the workplace.

The manufacturing plants and the printing plant are using LNG as a direct source of energy, and the Gimcheon leaf tobacco processing factory replaced B-C oil with LNG in September 2006. Currently only the Namwon leaf tobacco processing factory is using B-C oil, and is managing SO_x and NO_x.

The Foul-smell-preventing Bio System (Gwangju Manufacturing Plant)



Waste Management

KT&G is operating an intranet system to reduce waste, increase reuse, and recycle completely. And we are continuously working to improve awareness and consciousness. By means of improvement of operating efficiency of facilities at the manufacturing plants and the print plant, and the thorough analysis and management of the production lines to reduce the rate of damaged products, the total quantity of waste was reduced 9.3%, a 768-ton drop from the previous year. The leaf tobacco factories are outsourcing waste processing except for byproducts. And the manufacturing plants and the printing factory are also outsourcing part of the waste, and processing it on their own as well. In the future, KT&G is planning to continuously monitor whether the outsourcing companies are legally processing the waste from the viewpoint of supplier management.





Noise/Vibration Management

To remove the noise and vibration caused by the facilities in the plants and factories, KT&G installed soundproof facilities, and keeping their level below the legal standards. However, since some of the noise-making facilities within the premises of the Sintanjin manufacturing plant (blowers in the boiler room, the pneumatic conveyor, etc.) are exposed to the outside, this plant appears to make local residents inconvenient. To reduce the inconvenience of the local residents within the premises, KT&G is planning to plant soundproof trees and install soundproof walls, and repairing existing soundproof facilities.

Management of Soil Contamination

KT&G conducts the soil contamination test once every two years, repair target facilities on a regular basis, and manages risk factors to meet the legal requirements for waste storage. Also, it will continuously conduct contaminant leak tests for its facilities and soil.

Soil Contamination Measurement Results

(Unit: TPH - Total Petroleum Hydrocarbon)

Workplace	2005	2006	2007
Gwangju manufacturing plant	31		10
Sintanjin manufacturing plant	10	35	
Yeongju manufacturing plant		ND	
Wonju manufacturing plant	ND	17.5	
Cheonan printing plant			
Leaf tobacco processing plants			220

* the legal standard: 2,000mg/kg

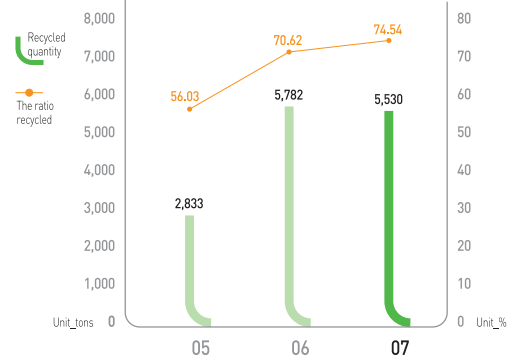
Management of Harmful Chemical Substances

To systematically manage harmful chemical substances, the Cheonan printing plant posted the materials safety data sheets (MSDS) for departments handling harmful chemical substances, and provides education. Also, it conducts the regular inspection twice a year to improve working conditions, and has employees handling harmful chemical substances undergo special health examinations every year to prevent accidents from taking place due to the handling of them.

Consideration of Environment-friendliness of Raw materials and packing materials

KT&G established its own environmental standards and has been applying them. In the case of newly-released "BOHEM", it uses the kraft paper for packing in consideration of eco-friendliness after scrapping.

Current Status of Recycling



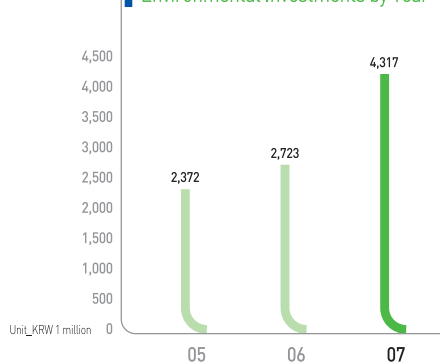
Improved management of harmful chemical substances (Cheonan printing plant)

- Reinforcing the facilities emitting harmful chemical substances in the relevant departments
- Improving printing solvents
 - Toluene type ▶ changed to alcohol type
 - Thinner coating type ▶ changed to water coating type
- Establishing and managing its own standards for harmful contents of printed products
 - If any product fails to satisfy the standards after self-measurement, it will be rejected.
- Requiring MSDS and analysis data when purchasing ink



Environment-friendly Plants and Factories

Environmental Investments by Year



Investments in Key Items

(Unit: KRW1 million)

	2005	2006	2007
Air	990	2,099	2,413
Water	613	373	414
Waste	92	196	306
Education	6.8	7	6.5
Others	670	48	1,178

Contents of Environmental Education and Participants

Year	Course Name	Participant	Contents	Remarks
2005	Implementation of the environmental management system	9	- Theory of environmental impact assessment - Environmental management laws for each workplace	For acquiring ISO 14001 certification
	Internal inspectors for the environmental management system	14	- Trends in environmental regulations - Key points in ISO14001 inspection - Theories and practice of internal inspection	
2006	Practical course for the ISO integrated management system	40	- Integration process by organization - Environmental impact assessment and planning	
	Internal inspectors for the ISO integrated management system	35	- Internal inspection checklist - Practical skills of inspection	
2007	Internal inspectors for the ISO integrated management system	25	- Internal inspection checklist - Practical skills of inspection	

Environmental Investments

To implement environment-friendly workplaces, KT&G is concentrating its investments on the improvement of air and water quality. The cost of air and water management is high because a lot of money was invested in improvement and installation of facilities to remove the foul smell from the manufacturing and raw material processing process and the waste water processing process, and minimize environmental accidents due to waste water leaks.

Key investment items in the air and water quality sectors include external labor cost, facility maintenance and installation of new facilities. As far as waste matters are concerned, investments include both the cost for internal processing, such as reinforcement of the facilities for waste treatment and repair of the oil tanks and waste storages, and the cost of outsourcing.

On top of that, the costs of improving the working and living conditions in other areas also increased a great deal over the previous year.

Environmental Management System

To ensure efficient environmental operations and objective management of environmental performance, KT&G operates an environmental management system. This system manages environmental load data to minimize environmental risks likely to occur during workplace operations. The production management office of the main office monitors this data on a real-time basis, and if there is anything out of the normal, immediate measures will be taken.

Environmental Education

KT&G held a workshop on environmental management for the first time in 2006. During the workshop, many issues were discussed, such as the environmental status of the frontline workplaces, i.e. the manufacturing plants and the print plant and what should be done in the future were discussed.

In addition, KT&G used the current in-house education system to internalize the knowledge and information relating to the improvement of working conditions and environment so that all employees can access them.

KT&G will hold the workshop for sharing environmental information with frontline workplaces every year to establish the education system concerning environmental issues. And we have employees take part in external courses related to environmental management and provide opportunities for dissemination of knowledge internally.





Environment Communication

Compliance with Environmental Laws and Regulations

In 2003 KT&G Yeongju manufacturing plant violated environmental laws and regulations, and thus was ordered to repair its waste water treatment plant. Accordingly, it repaired this plant, and since October 2003 there has never been any violation of environmental laws and regulations, or any grievance.

Violations of Environmental Laws and Regulations and Actions taken

Date	Description	Actions taken
September 25, 2003	1 order of repair: exceeding the emission standard during early operation of the waste water treatment plant	Repaired

Environmental Protection Activities

On April 1, 2006 the KT&G Welfare Foundation planted trees at the Naksansa Temple with about 450 volunteers. The volunteers were recruited through the homepage of the KT&G Welfare Foundation from March 15 to 26, and a little more than 450 volunteers were recruited including volunteers from the KT&G Senior Volunteer Group, college students and citizens. Through this event the aflamed branches were removed and 2,000 Korean azaleas were planted.

KT&G is planning to develop and operate programs for protecting local environment and biodiversity.

Reinforced External Activities

To enforce environmental management in a realistic fashion, KT&G is well aware of the importance of implementing a network. To this end, we take part in the International Exhibition on Environmental Technologies and Products, and maintains a cooperative relationship with NGOs and the Government.

Currently the Sintanjin manufacturing plant is operating the Green E-mail system to share environmental data with the municipal government of Daejeon, and offer opportunities to visit its manufacturing plants including environment-related facilities. This plant is also taking part in local environmental events and education to strengthen its ties with local communities.

Tree Planting at the Naksansa Temple



Manufacturing Plant Tour



Aren't you curious about the cigarette manufacturing plant?

KT&G offers opportunities to visit its fully-automated state-of-the-art manufacturing plants in Yeongju, Wonju and Gwangju. Please log on to KT&G's homepage (www.ktng.com) and apply for a chance to visit one of these plants.

1. **Type of visit:** a group visit of more than 20 people
2. **Available days:** Monday ~ Friday
3. **Time:** 09:00~10:00 and 14:00~16:00
4. **Length of visit:** 50 minutes
5. **Course:**
Look at the exterior of the manufacturing plant ▶
Exhibition hall ▶ Watching an intro-movie ▶ Visit to the site



Imagination is a Reality of Tomorrow!



Appendix





Third-party Review Opinion



Reviewer
Jang Ji-in

Professor of College of
Business of Administration,
Chung-Ang University

Corporate transparency adviser for
the Korea Independent Commission
Against Corruption

Former director of the government
innovation evaluation agency

The purpose of this review opinion is to check whether KT&G's Sustainability Report was faithfully written in compliance with international standards, and its performances were appropriately reported. In my opinion KT&G Sustainability Report 2007 appropriately measured and reported its performances in terms of economy, society and environment in compliance with the recently announced GRI G3 Guidelines. In particular, I believe that this report prepared by KT&G, intending to become a global blue-chip company on the basis of a 'righteous and enlightened company pursuing companionship', is a core tool of value management, and carries great significance in the following aspects:

For starters, KT&G's vision is to transform itself into a global blue-chip company by creating new values. The social and environmental performances of a global blue-chip company must be at the same level as its economic performance. In terms of economic performance KT&G has produced results enough to be recognized as a global blue-chip company, which has been reported in its financial reports over the years. However, since KT&G has never published any sustainability report before, its social and environmental performances have been hardly accessible in the domestic and overseas market. KT&G Sustainability Report is very significant in that it allows diverse stakeholders both at home and abroad to access its social and environmental performances as well as its economic performance.

Secondly, the characteristics of KT&G's products and the cigarette industry require continuous communication not only with shareholders and creditors, but also with diverse stakeholders, in particular, customers, local communities and suppliers. The sustainability report of KT&G does a good job in presenting its social performance, such as customer satisfaction, human resources management and social contribution to local communities through its welfare foundation. And the following things are also excellent: its environmental performance, such as reinforcement of environment-friendly management system operations and its ability to cope with environmental risks and implementation of the environment-friendly corporate culture, well in compliance with global standards. I am convinced that KT&G Sustainability Report 2007 can deliver its role as a corporate citizen, and its environmental activities and performance to diverse external stakeholders, thereby contributing a great deal to enhancing the image of KT&G.

Thirdly, KT&G Sustainability Report 2007 complied with the GRI G3 Guidelines announced in October 2006 so faithfully that it disclosed its performances and plans by index in a transparent manner. As KT&G takes not only domestic customers, but also global customers into consideration as a global company, this sustainability report supplements existing financial reports so that it fully provided diverse stakeholders with non-financial information conducive to a balanced evaluation of the corporate values of KT&G.

KT&G Sustainability Report 2007 capitalized on various charts and illustration and added detailed description to help stakeholders better understand it. However, as this report is the first publication, additional efforts are necessary to further improve its quality. For instance, in terms of environmental performance, environmental accounting must be introduced so that it is better able to quantitatively measure environmental investment, environmental costs and environmental performance. Furthermore, if comparison with domestic leading companies or global blue-chip companies is added, I am certain that it will be a more complete sustainability report.

Jang Ji-in 장지인





Reviewer

Kim Geo-seong

Director of Transparency International
Chairman of Transparency International Korea
A member of the Korea Independent
Commission Against Corruption

I'd like to start by saying that I welcome KT&G's interest and its will concerning sustainability management. In particular, this sustainability report laid the foundation for ethical management by emphasizing transparency, and I want to set a high value on it more than anything else. I express my views as follows on the basis of KT&G Sustainability Report 2007 and its homepage.

First of all, KT&G needs to deliver more accurate and transparent information about cigarettes, its core business, to all stakeholders including consumers. The homepages of competitors in the same industry provide basic information about the impact of smoking on health, addictiveness, components of cigarettes including tar and nicotine levels, secondhand smoking, etc. They go as far as providing links for access to more information. In contrast, I believe, KT&G is not quite up to the mark when it comes to disclosure of information. As this report emphasizes, the foundation of ethical management is transparency. I am convinced that transparent disclosure of this negative information will arouse the attention of consumers and narrow down the scope of corporate responsibility.

Secondly, in connection with ethical management, KT&G must make an all-out effort to enable stakeholders to use information or systems with greater ease. I am looking forward to seeing the next reports provide operational performance as well as quantitative information, e.g. the number of cases of reporting and counseling based on these systems. As this report mentions, KT&G's efforts to improve corporate governance, related educational processes, and implementation of an internal control system for prevention of corruption are not conclusive in and by themselves. For instance, if accessing related web pages is as good as completing the cyber education of ethical management, the rate of education completed is not meaningful anymore. Likewise, the internal control system will be effective simply because it is implemented. More importantly, the substances must lead all its employees to be value-oriented and take them as their action principles.

Thirdly, KT&G Sustainability Report 2007 complied with the GRI G3 Guidelines announced in October 2006 so faithfully that it disclosed its performances and plans by index in a transparent manner. As KT&G takes not only domestic customers, but also global customers into consideration as a global company, this sustainability report supplements existing financial reports so that it fully provided diverse stakeholders with non-financial information conducive to a balanced evaluation of the corporate values of KT&G.

Comprehensive risk mapping concerning various types of internal corruption must be done and countermeasures based thereupon must be formulated more concretely. The recent subprime mortgage crisis or France's Societe Generale incident clearly demonstrates how important ethical management is. If any company fails to be regarded as moral and ethical by all stakeholders continuously, that company will be a castle in the air no matter how excellent technology it has or how well capitalized it is.

Lastly, despite these less than satisfactory aspects, I am convinced that KT&G is going in the right direction. I hope that this report will help everyone interested in the company as well as its stakeholders better understand KT&G and find the company more trustworthy.

Kim Geo-seong 김기성



Third-party Review Opinion



Reviewer
Lim Ji-ae

Korean Federation For
Environmental Movement

Director of the corporate social
responsibility committee

I want to congratulate KT&G on your publication of the sustainability report.

I admire KT&G's effort as a corporate citizen to communicate with society and its will to enforce sustainability management.

In recent years environmental issues, such as global warming and climate change, which must be dealt with globally, are becoming more serious. On top of that, personal interests in health and efforts to lead a healthy life are increasing.

For KT&G to transform itself into a global company, it must be more aggressive in performing its social responsibilities as a corporate citizen. Also, the characteristics of its products, i.e. 'cigarettes', require a more responsible attitude and role with regard to the social issues and needs in the field of environment and health.

KT&G's stakeholders must not be limited to shareholders, customers and employees, but this concept needs to be further expanded. Even if they are not direct customers, non-smokers, indirect smokers, pregnant women and children need to be included as stakeholders, and continuous communication with them is in order.

Furthermore, if a voluntary and forward-looking plan is presented as well with regard to the Framework Convention on Tobacco Control (FCTC), which was announced back in 2005, it will greatly help KT&G perform its social responsibilities.

Lastly, as far as management of product environment is concerned, if KT&G presents a plan to manage the environmental conditions at the stage of inputting raw materials as well as leaf tobacco processing and product management control, and in the process of consumption when pollutants made, it will be able to enforce environmental management throughout all its processes.

I fully support KT&G's effort to implement sustainability management, and I sincerely hope that it will further evolve as a corporate citizen.

Lim Ji-ae *Lim Ji-ae*





Results of the Interviews and Survey of Stakeholders

In 2007 KT&G conducted interviews with and surveys of internal and external stakeholders about the current status of sustainability management and its future direction. Through the interviews and surveys divided into three segments, i.e. economy, society and environment, diverse opinions as to KT&G's sustainability management were presented.

	Economy	Society	Environment
Employees	<ul style="list-style-type: none"> Establishment and execution of concrete sustainability management strategies Efforts to reinforce employees' awareness of sustainability management Development of logic for new revenue-making business and establishment of concrete strategies Revitalization of overseas networks Formulation of measures to cope with various marketing regulations Seeking ways to localize design and brand when entering foreign markets Diversification of business into the health and bio industry 	<ul style="list-style-type: none"> Reflection of sustainability management elements, such as social contribution scores, during promotion evaluation Management of accidents caused by stress Development of diverse contact points with customers and local communities Management of the sustainability management of suppliers Formulation of concrete plans to prevent youth smoking and indirect smoking Fostering and utilizing outstanding talents 	<ul style="list-style-type: none"> Performance-oriented environmental management activities Reinforcement of internal environmental communication Management of annual plans and performance according to the environmental management plan Regular guidance and inspection of outsourcing companies Enhancement of the environment-friendly image of KT&G Establishment of policies to cope with environmental issues, such as protection of biodiversity, and Convention on Climate Change, etc.
Suppliers	<ul style="list-style-type: none"> Establishment of detailed plans to globalize, such as creation of a global brand Development of less harmful cigarettes 	<ul style="list-style-type: none"> Performance of strategic social contribution activities 	<ul style="list-style-type: none"> Support of the environmental management of suppliers
NGOs, NPOs and Local Communities	<ul style="list-style-type: none"> Finding ways to secure market competitiveness Diversification of business for sustainable growth Proactively coping with the Government's anti-smoking policy Continuous enforcement of transparent management and ethical management 	<ul style="list-style-type: none"> Revitalization of communication with stakeholders to effectively listen to and cope with opinions on the cigarette industry Differentiated social contribution activities Finding ways to prevent youth smoking and indirect smoking Support of anti-smoking activities, such as quit-smoking schools and cancer centers 	<ul style="list-style-type: none"> Organizing a meeting with local communities to jointly cope with local environmental problems and reinforce share environmental information Review of various renewable energy businesses to cope with climate change
Government	<ul style="list-style-type: none"> Continuously seeking ways to solve grievances for designation of cigarette retailers Coping with the Framework Convention on Tobacco Control (FCTC) 	<ul style="list-style-type: none"> Efforts to prevent youth smoking and indirect smoking 	<ul style="list-style-type: none"> Building an enterprise-wide environmental organization Becoming an environment-friendly company

- The interests of customers were identified on the basis of the result of the customer satisfaction survey and their opinions.
- The interests of shareholders were identified on the basis of the decisions made in the general meeting of shareholders and the board of directors.



Commendations





Membership Status in Related Organizations

Organization	Date joined	Prospectus
The Korea Tobacco Association	March 1998	<ul style="list-style-type: none"> A purely civilian organization consisting of 4 major cigarette makers Aiming to ensure that the society understands the cigarette industry fairly and objectively by collecting and disseminating information about cigarettes Promoting intra-industry cooperation based on fairness, and contributing to the sound development of the domestic cigarette industry and the national economy by appropriately coping with the social atmosphere surrounding the cigarette industry
Korea Fair Competition Federation	May 1999	<ul style="list-style-type: none"> Serving as a bridge between the Government and the industry by helping the private sector better understand the fair trade system, promoting autonomous fair competition, and making suggestions to the Government regarding fair trade policies
Federation of Korean Industries	November 2002	<ul style="list-style-type: none"> Implementing right economic policies and globalizing the economy to promote the free market system and help the national economy grow in a sound manner





GRI Indicators

	GRI	Relevancy to KT&G	Page
Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.	CEO's Message	4-5
1.2	Description of key impacts, risks, and opportunities.	Selection of key issues of KT&G Sustainability Report	16-23
Organizational Profile			
2.1	Name of the organization	Company outline	14
2.2	Primary brands, products, and/or services.	Business structure, major achievements at home and abroad, exports of major brands, representative ultra low tar brands	14, 27, 29
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Company outline, investments, business structure	14-15
2.4	Location of organization's headquarters.	Offices and facilities, company outline	Inside back flap, 14
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Key overseas business regions	28
2.6	Nature of ownership and legal form.	Company outline	14
2.7	Markets served	Business structure, major achievements at home and abroad, current status of each business sector, key overseas business regions	14, 27-28
2.8	Scale of the reporting organization	Economic performance indicators, company outline, major achievements at home and abroad, employee information	8, 14, 27, 38
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Company outline, shareholders return	14, 27
2.10	Awards received in the reporting period	Commendations	68
Report Parameters			
3.1	Reporting period	Reporting period and cycle	Front cover flap
3.2	Date of most recent previous report	(Not applicable since it is the first report)	
3.3	Reporting cycle	Reporting period and cycle	Front cover flap
3.4	Contact point for questions regarding the report or its contents.	Inquire about the report, how to gain access to additional information	Front cover flap, post card
3.5	Process for defining report content	Guideline, selection of key issues	Front cover flap, 22-23
3.6	Boundary of the report	Scope of the report	Front cover flap
3.7	State any specific limitations on the scope or boundary of the report	Scope of the report	Front cover flap
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Scope of the report	Front cover flap
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	Calculation of greenhouse gas emissions	56
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	(Not applicable since it is the first report)	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	(Not applicable since it is the first report)	
3.12	Table identifying the location of the Standard Disclosures in the report.	GRI indicators	70-73
3.13	Verification	Third party review by external experts, third party review opinion	17, 64-66
Governance, Commitments, and Engagement			
4.1	Governance structure of the organization (including committees under the board of directors responsible for specific tasks, such as setting strategy or organizational oversight)	KT&G's corporate governance, board of directors, committees inside the board of directors	32, 34





	GRI	Relevancy to KT&G	Page
Governance, Commitments, and Engagement			
4.2	Indicate whether the Chair of the board of directors is also an executive officer	Current status of the board members	32
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Current status of the board members	32
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the board of directors.	General meetings of shareholders	34
4.5	Linkage between compensation for members of the board of directors, senior managers, and executives	Evaluation of the performance of the board of directors	34
4.6	Processes in place for the board of directors to ensure conflicts of interest are avoided.	Committees inside the board of directors	34
4.7	Process for determining the qualifications and expertise of the members of the board of directors for guiding the organization's strategy on economic, environmental, and social topics.	Current status of the board members, KT&G's independent non-executive outside directors have expertise	32-33
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Sustainability management vision, the basic system of sustainability management, where is KT&G's sustainability management headed?, 2007 outcomes and future plans in the economy, society and environment sectors, code of ethics, and practical business ethics guideline	16, 18-21, 37
4.9	Procedures of the board of directors for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Reinforced role of non-executive outside directors	33
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Evaluation of the performance of the board of directors	34
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Reinforcing the anti-corruption system, internal control system, establishing policies to prevent impediments to hampering fair competition	36, 43
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Establishing policies to prevent impediments to hampering fair competition, coping with climate change	43, 56
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	Membership status in related organizations	69
4.14	List of stakeholder groups engaged by the organization.	Selection of key issues, results of the interviews and survey of stakeholders	23, 67
4.15	Basis for identification and selection of stakeholders with whom to engage.	Reflect the opinions of stakeholders	17
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Reflect the opinions of stakeholders	17
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Selection of key issues, results of the interviews and survey of stakeholders	22-23, 67

	GRI	Relevancy to KT&G	Page
Economic Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	8, 27, 28, 29
		Goals and Performance	15, 27
		Policy	37
		Additional Contextual Information	14, 15, 18, 26-29
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Key business performance, key financial statements, the ratio of social contribution out of sales, major achievements at home and abroad, KT&G's economic and financial contributions	8-9, 27-28
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	The basic system of sustainability management	18
EC3	Coverage of the organization's defined benefit plan obligations.	(Currently KT&G does not have any retirement pension program. However, KT&G are internally trying to make agreement with employees for introducing the pension program. From this effort, we will commence this program within the near term.)	



GRI Indicators

	GRI	Relevancy to KT&G	Page
Economic Performance Indicators			
EC4	Significant financial assistance received from government.	Government subsidies	28
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Employee information	38
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	KT&G's economic and financial contributions	28
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	Employee information	38
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Social responsibility linked to the business, social welfare, employees' social contribution, environmental protection, reinforcing the national competitiveness, sponsoring culture, arts and sports	44-47
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	KT&G's economic and financial contributions	28
Environmental Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	54, 55
		Goals and Performance	10, 11, 55
		Policy	37
		Organizational Responsibility	55
		Training and Awareness	60, 61
		Monitoring and Follow-up	43, 60, 61
		Additional Contextual Information	54-56, 59, 61
EN1	Materials used by weight or volume.	Use of raw material	10, 57
EN2	Percentage of materials used that are recycled input materials.	Quantity of by-products and the ratio of recycle	10, 57
EN3	Direct energy consumption by primary energy source.	Energy consumption and basic unit improvement	10, 56
EN4	Indirect energy consumption by primary source.	Energy consumption and basic unit improvement	10, 56
EN5	Energy saved due to conservation and efficiency improvements.	Energy consumption and basic unit improvement	10, 56
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Coping with climate change	56
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Coping with climate change	56
EN8	Total water withdrawal by source.	Water use and basic unit improvement	10, 57
EN9	Water sources significantly affected by withdrawal of water.	(Most workplaces use waterworks, and some use underground water or draws water from the river, but no water source is significantly affected as specified by GRI.)	
EN10	Percentage and total volume of water recycled and reused.	Sewage and waste water discharge and the ratio recycled	10, 57
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Offices and facilities, (the manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area)	Back cover flap
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	(The manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area)	
EN13	Habitats protected or restored.	(No habitats protected or restored due to the business of KT&G)	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Eco-Friendly Management Road Map	55
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	(No establishment of data management concerning species and their numbers in danger of extinguishment, affected by operation. However, KT&G will establish the framework to study the impact on endangered species around the plants with the mid-term view.)	
EN16	Total direct and indirect greenhouse gas emissions by weight.	CO ₂ emissions and basic unit improvement	10, 56
EN17	Other relevant indirect greenhouse gas emissions by weight.	(No data of gas emission collected, which is put out by operation or business trip. KT&G is internally taking into account to develop the system to check the entire amount of greenhouse gas emitted with the mid&long-term point of view.)	





	GRI	Relevancy to KT&G	Page
Environmental Performance Indicators			
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	CO ₂ emissions and basic unit improvement, coping with climate change	10, 56
EN19	Emissions of ozone-depleting substances by weight.	(KT&G is not using substances destroying the ozone layer, and there has been no emission.)	
EN20	NO, SO, and other significant air emissions by type and weight.	Concentration of sulfur and nitrogen oxides as compared to the legal standards SO _x , NO _x (leaf processing factories)	11, 58
EN21	Total water discharge by quality and destination.	Sewage and waste water discharge and the ratio of recycle, concentration of water pollutants compared to the legal standards	10, 57
EN22	Total weight of waste by type and disposal method.	Quantity of waste matters and basic unit improvement, waste management	11, 58
EN23	Total number and volume of significant spills.	(No case of leak during the report period)	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	(No case of overseas export during the report period)	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	(Waste water in most workplaces is managed primarily by the waste water treatment plant, and then discharged to the final waste water treatment plant. In Wonju manufacturing plant waste water is directly discharged to the river, but conforms to the standards of water quality laws and regulations.)	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Consideration of the environment-friendliness of raw materials and packing materials	59
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	(Considering the characteristics of products, it is difficult to estimate the recycling rate of discarded cigarettes. However, KT&G collects all the amounts of the parcel paper by means of outsourcing agency.)	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	Violations of environmental laws and regulations and actions taken	61
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	(No system currently available to keep tracks on on-site transports and employee transportation)	
EN30	Total environmental protection expenditures and investments by type.	Environmental investments by year	60
Labor Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	38, 39, 40, 41
		Goals and Performance	9, 38, 39, 40, 41, 42
		Policy	37
		Organizational Responsibility	15, 39, 41
		Training and Awareness	38, 40, 42
		Monitoring and Follow-up	39, 42
		Additional Contextual Information	8, 39, 40, 41, 42
LA1	Total workforce by employment type, employment contract, and region.	Employee information, number of employees by year	38
LA2	Total number and ratio of employee turnover by age group, gender, and region.	Number of retirees and turnover ratio	38
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Employee welfare system	39
LA4	Percentage of employees covered by collective bargaining agreements.	Establishing the win-win labor-management culture, information on the labor union	39
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	Establishing the win-win labor-management culture	39
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Number of committee members in the industrial safety and health committees	41
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Disaster occurrence ratio, number of lost work days and number of persons involved in an industrial accident	9, 42
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Employee welfare system, safety management education, social welfare	39, 42, 46



GRI Indicators

	GRI	Relevancy to KT&G	Page
Labor Performance Indicators			
LA9	Health and safety topics covered in formal agreements with trade unions.	Industrial health and safety issues contained in the collective bargaining	41
LA10	Average hours of training per year per employee by employee category.	Education and training hours per person	40
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Providing education programs for life plan support	40
LA12	Percentage of employees receiving regular performance and career development reviews.	(The performance of full-time employees is evaluated and reviewed.)	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Current status of the board members, number of employees by year, the ratio of female workers, employment of the disabled	9, 32, 38-39
LA14	Ratio of basic salary of men to women by employee category.	Efforts to protect human rights	38
Human Rights Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	38, 40
		Goals and Performance	38, 39, 40
		Policy	37
		Organizational Responsibility	39
		Training and Awareness	38
		Monitoring and Follow-up	38
		Additional Contextual Information	38, 40
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	(KT&G have not made any investment agreements by screening human rights for the past few years.)	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	(No such screening system or action has been taken with regard to human right issue in the supply chain. As societal concern for it, KT&G is internally taking into account to adopt the criteria for closely monitoring human right issues from its supply chain within the short term.)	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Efforts to protect human rights	38
HR4	Total number of incidents of discrimination and actions taken.	(No cases of discrimination during the report period)	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Establishing the win-win labor-management culture	39
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Prohibition of child labor and forced labor	38
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	Prohibition of child labor and forced labor	38
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	Document security and information protection education	40
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	(No violation during the report period)	
Society Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	35, 36, 43, 44
		Goals and Performance	9, 36, 43, 45-47
		Policy	37
		Organizational Responsibility	36, 43, 46
		Training and Awareness	36, 39, 41





	GRI	Relevancy to KT&G	Page
Society Performance Indicators			
Disclosure of Management Approach		Monitoring and Follow-up	38, 43, 45, 51
		Additional Contextual Information	35, 36, 43, 45
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Social responsibility linked to the business, environmental protection	45-46
S02	Percentage and total number of business units analyzed for risks related to corruption.	Incidents of corruption by business unit	36
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	Ethical management education process	36
S04	Actions taken in response to incidents of corruption.	Incidents of corruption by business unit	36
S05	Public policy positions and participation in public policy development and lobbying.	Disclosing product information to customers	49
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	(KT&G does not make financial and in-kind contributions to political parties.)	
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Cases of unfair trade practices, establishing marketing standards	43, 51
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Incidents of corruption by business unit, how unfair labor practices were handled	36, 38
Product Responsibility Performance Indicators			
Disclosure of Management Approach		Disclosure of Management Approach	48, 49, 51
		Goals and Performance	9, 49, 50
		Policy	37
		Organizational Responsibility	48, 51
		Training and Awareness	48, 51
		Monitoring and Follow-up	48, 50, 51
		Additional Contextual Information	48, 49, 51
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Product information disclosure for customers, product researches to lower the harm of smoking	49
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Cases of unfair trade practices	43
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	(No case of violation during the report period)	49
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Cases of unfair trade practices	43
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Social performance indicators, result of KT&G's own customer satisfaction survey	9, 50
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Result of KT&G's own customer satisfaction survey	50
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Cases of unfair trade practices	43
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	(No case of violation)	
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	Cases of unfair trade practices	43



Glossary

Environmental Tobacco Smoke (ETS)

Indirect inhalation of the mainstream smoke and sidestream smoke when the smoker inhales the smoke and exhales it.

United Nations Framework Convention on Climate Change

It is an international convention for regulating and preventing global warming. It is also called the 'Rio Declaration'.

Green Purchasing

The procedure for considering what impact the product you want to purchase will have on the environment before purchasing it.

Framework Convention on Tobacco Control (FCTC)

WHO adopted it at the 56th general assembly on May 21, 2003 for effective control of and international cooperation regarding smoking, and it went into effect on February 27, 2005.

Matching Grant

When employees donate to a nonprofit organization or agency, the company matches the donated amount on a 1:1 basis.

Flexible Benefit Plan

A welfare system in which employees can select what they want from several different welfare systems.

Voluntary Agreement (VA)

A company related to production, supply and consumption of energy enters into an agreement with the government, and sets energy-saving and greenhouse gas emissions reduction goals. Then, the government validates these goals, and gives various incentives accordingly.

Eco Efficiency (EE)

This term was first proposed by WBCSD (World Business Council on Sustainable Development) in 1994. It refers to creating economic values while minimizing the impact on environment when a company makes products or services. It is the ratio of environmental performance to economic performance.

Employee Stock Ownership Plan (ESOP)

A company sells its treasury stocks to employees and allows them to own them under special conditions.

Union Shop

The employer is free to hire a union member or a nonunion member, but once hired, the employee must join the labor union within a certain amount of time.

Home Care Service

Volunteers and resources of local communities are utilized to provide the elderly, disabled and teenage heads of households in the local communities with services necessary for daily life.

Sustainability Management (SM)

Management activities aimed at gaining a competitive edge by continuously creating performance while displaying leadership and responsibility in terms of economy, society and environment, and enhancing corporate value by fulfilling social responsibilities.

Responsible Management System

It refers to distributing management goals rationally with clearly defined R&R, measuring performance and profitability and linking them to compensation so that each organizational unit secures market competitiveness independently.





Balanced Score Card (BSC)

It is a new strategy management system and performance evaluation system for business. It is a tool for transforming the mission and strategies of the organization into comprehensive metrics so that they can be measured and managed.

Clientship

It is customer-oriented leadership. It refers to satisfying internal customers and ultimately external customers by identifying and satisfying the needs of subordinates instead of regarding them simply as individuals performing their jobs.

Compliance Program (CP)

It is a program for voluntary fair trade compliance. CP stage 1 is to introduce and operate CP. CP stage 2 is to satisfy the requirements of stage 1 and get a grade better than BB (50 points) in the CP rating. CP stage 3 is to satisfy the requirements of stages 1 and 2 and voluntarily correct relevant violations.

DowJones Sustainability Index (DJSI)

It is a sustainability index jointly developed in 1999 by DowJones and SAM (Sustainable Asset Management), a Swiss-based sustainability management rating agency. This index includes only the top 10% of those companies included in the DowJones Global Index 2500 (DJGI 2500) which were found to be excellent in sustainability through integrated evaluation based on economic, environmental and social standards.

GRI (Global Reporting Initiative) Guidelines

GRI was founded in 1997, receives funds from the United Nations Foundation, and develops the standards for sustainability management reporting that are widely recognized and utilized across the world. These are GRI guidelines for preparation of sustainability management reports.

ISO 14001

It is part of the 'ISO 14000 Series', an international standard about the environmental management system established by TC 207 of the International Standards Organization.

Management by Objectives (MBO)

In this comprehensive organizational management system the members of the organization clearly set the objectives of the organizational units and individual members through the process of participation, performs production activities according to the objectives, and the accomplishments of individual organizational units and members are measured and evaluated to ensure efficient management.

Material Safety Data Sheets (MSDS)

It refers to material safety and health data prepared by operators manufacturing, importing and handling chemical substances on the basis of the result of risk assessment.

National Customer Satisfaction Index (NCSI)

This index was made to improve the quality competitiveness of enterprises, industries and the country. It concerns the pursuit and management of customer satisfaction. It not only offers indexes for accurate measurement of customer satisfaction, but also serves as a measurement method for analyzing business performance.

Tonnage of Oil Equivalent (TOE)

It is a unit indicating the amount of energy. 1 TOE is the energy generated when 1 ton of oil is burned.

UN Global Compact

The UN decided on 10 principles regarding human rights, environment and prevention of corruption, and inaugurated this global compact to ensure that businesses would execute it.

About publishing KT&G Sustainability Report

KT&G analyzed the sustainability management activities it has performed as a corporate citizen since its privatization in 2002. And we also included future plans from three perspectives, i.e. economy, society and environment, in accordance with the GRI G3 Guidelines. 'KT&G Sustainability Report 2007' contains KT&G's will to build a sustainable future, and we will capitalize on this report to engage in systematic and practical sustainability management activities.

KT&G will take a step forward in meeting the expectations of stakeholders, and disclose the outcomes of sustainability management through our sustainability management reports and homepage on a regular basis. Thank you.

- All Employees of KT&G -

GRI G3 Application Levels

'KT&G Sustainability Report 2007' is a report that complies with the standard disclosures of the GRI G3 Guidelines, and KT&G self-declares the application level.

As this report meets the needs of 'A' according to the 'GRI G3 Application Levels', KT&G self-declares Level 'A'.

In addition, GRI Secretariat examined the quality of this report, and allowed us to get a level 'A'.



GRI Application Levels Table

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures Output	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures Output	Not required		Management Approach Disclosed for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators Output	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environment, Human rights, Labor, Society, Product Responsibility		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

* Sector supplement in final version

Offices and facilities

Head office

100, Pyeongchon-dong, Daedeok-gu, Daejeon

Production Group, R&D Group, and Management Support Headquarters are located in the head office.

Seoul office

KOSMO Tower, 1002, Daechi-dong, Gangnam-gu, Seoul

Strategy Group, Marketing Group, and Growth Business Headquarters are located in the Seoul office.

Sintanjin Plant (tobacco manufacturing)

100, Pyeongchon-dong, Daedeok-gu, Daejeon

Yeongju Plant (tobacco manufacturing)

255-1, Jeokseo-dong, Yeongju, Northern Gyeongsang Province

Gwangju Plant (tobacco manufacturing)

330, Yangsan-dong, Buk-gu, Gwangju

Wonju Plant (tobacco manufacturing)

1310, Jangyang-ri, Socho-myeon, Wonju, Gangwon Province

Gimcheon Factory (leaf tobacco processing)

500, Dasu-dong, Gimcheon, Northern Gyeongsang Province

Namwon Factory (leaf tobacco processing)

300, Gojuk-dong, Namwon, Northern Jeolla Province

Cheonan plant (printing plant)

511, Seongjeong-dong, Cheonan, Southern Chungcheong Province

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The report was printed on recycled paper with soybean-based ink.

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