



SUSTAINABLE SEED FOR TOMORROW

2021 KT&G Integrated Report

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ABOUT THIS REPORT

Report Overview

KT&G makes public its activities, performances, and plans for sustainable growth and healthy development by publishing the KT&G Report on an annual basis. Such efforts are aligned with our efforts to better communicate with stakeholders and gather their opinions, as well as work to strike a balance between environmental and social aspects as we push ahead with our advancement. We reviewed recommendations from ESG-related global initiatives and reflected the results in this report. We will continue to disclose our sustainability activities and performances transparently by publishing reports.

Reporting Period

This report covers sustainability business activities and performances for the fiscal year from January 1 through December 31, 2021. In addition, the quantitative data covers three-year data from 2019 to 2021 to show yearly trends and includes some activities for four-year data from 2018 to 2021. It may include significant sustainability business activities and performances in the first half of 2022 to provide timely information.

Reporting Scope

The financial information in this report is based on the K-IFRS. The scope of social and environmental information spans some overseas manufacturing sites (Russia, Turkey, and Indonesia) and domestic worksites, including the Head Office, R&D Headquarters, Sintanjin Plant, Gwangju Plant, Yeongju Plant, Cheonan Plant, Gimcheon Plant, and sales sites across the country. And this year, our subsidiaries – Korea Ginseng Corporation (KGC), Yungjin Pharm, COSMOCOS, TAE-A Industrial, and KGC Yebon – were also included in the reporting scope. Different reporting scopes and changes in reported data are marked separately.

Reporting Standard

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

Assurance

To ensure the quality of reporting content and reliability of data, third-party assurance was conducted, thereby securing open data, authenticity of content, and fairness. The assurance statement can be found in Appendix p.170.

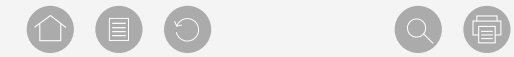
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Interactive PDF User Guide

The KT&G 2021 integrated report was published as an interactive PDF with functions such as navigation to related pages and shortcuts to related web pages.



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LETTER TO STAKEHOLDER

Dear all stakeholders, I'm Baek Bok-In, CEO of KT&G Corp.

I express my sincere gratitude for your continued support and interest in KT&G. Two years ago, in September 2020, KT&G revised the regulations of the Board of Directors to make All Directors' Meeting – the highest decision-making body – responsible for overseeing sustainability management. In February 2022, the Sustainability Committee was established within the Board of Directors to discuss the ESG management system in greater depth. Moreover, in May, KT&G set forth the group-wide 'KT&G Code of Conduct', laying the foundation for collective ESG management at the group level.

KT&G recognizes that a business strategy built on robust ESG competitiveness is more sustainable and leads to long-term growth and higher enterprise values. Therefore, KT&G has focused more on its 「Biz. Strategies for Strengthening Growth Momentum」 and the 「Global Standards Implementation Strategy」 were reorganized and established the '2025 Empowering Sustainability for Growth' as the ESG vision for the KT&G Group.

Moving forward, KT&G will thoroughly examine ESG factors' importance as a driver of business growth, and use such knowledge to develop its growth strategies, thereby more effectively managing business risks and opportunities linked to sustainability.

We will strive to become a "Global Top-Tier Market Leader" in thriving categories with global leadership in the Next Generation Product (NGP) field, becoming a new growth engine for the future tobacco business. To this end, KT&G is expanding its NGP innovation platforms and making it its core strategic objective to build a successful business model underpinned by a world-class scientific development capability and strengthen global No.1 partnerships. The "CheongKwanJang" brand in the health functional food business aims to strengthen health and consumer-friendly product competitiveness through consistent ESG value enhancement activities throughout all stages of product development - development, raw materials, production, and consumption. Such ESG management capacity that rivals that of KT&G's listed companies will bring changes and innovations in our health-functional food business and boost competitiveness in the global market.

As KT&G implements its business strategies, we will also seek operational excellence. Under a transparent decision-making system, we will consider the environment and people balanced and communicate with challenging goals and practical and objective results.

After establishing a mid-to-long term green management vision of 「2030 Green Impact」, KT&G has undertaken various activities, reducing greenhouse gas emissions from its domestic business sites by 4.1% in 2021 compared to the previous year. As for overseas business sites and Scope 3(indirect emissions from locations other than business sites), we took a proactive approach to build management systems and sought third-party assurance to ensure data reliability and objectivity.

We will continue strengthening our internal capacity to implement global standards in the future. We will increase renewable energy use, contribute to a circular economy through an e-waste material recycling system, engage in systematic management centered on human rights, and advance a KT&G-wide program to enhance cooperation between farms and partner companies.

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

This year marks the 20th anniversary of KT&G's privatization. KT&G has not lost its way but stepped toward expanding its stage into the world during a fierce wave of tremendous challenges, where all protective barriers have been completely dismantled. I can assure you that KT&G Group will keep flourishing for the next 20 years as it enters a broader industrial ecosystem. In the process, we will share our progress with all stakeholders – KT&G employees, who are the backbone and driving force of KT&G, consumers who purchase our products, business partners who grow together with us, and shareholders who benefit from our achievements – and move forward into the future together.

I would like to ask for your unwavering support and interest as KT&G takes on new challenges.
Thank you.

CEO Baek, Bok-In



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KT&G AT A GLANCE

Corporate Profile

Under the corporate philosophy “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with customers and strives to realize a better life. Growing into a global giant company through change and innovation, KT&G is creating social values and expanding sustainability activities. In addition, we are generating results in various business areas such as health functional food business, biopharmaceutical business, real estate business, including next-generation tobacco business, which will be the engine of future growth.

Company name	Establishment	CEO	Headquarters	Employees
KT&G Corporation	April 1, 1987	Baek, Bok-in	71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea	4,311 persons (as of Dec. 31, 2021, including contract-based employees)

Milestones

1883~1980	1987~2002	2003~Present
Beginning of Korean Tobacco History	Development and Advancement through Innovation	Giant Global Company
<p>1883 • Founded the Sunhwaguk</p> <p>1965~ • Completed construction of major manufacturing plants in Korea</p> <p>1975</p>	<p>1987 • Founded the Korea Monopoly Corporation</p> <p>1989 • Founded the Korea Tobacco & Ginseng Corp.</p> <p>1999 • Listed on the Korea Stock Exchange</p> <p>• Separation of Red Ginseng Business (Launched the KGC)</p> <p>2002 • Changed the corporation name from Korea Tobacco & Ginseng Corp. to KT&G Corp.</p>	<p>2003 • Founded the KT&G Welfare Foundation</p> <p>2005 • Received the Presidential Award for employee job training</p> <p>2006 • Selected as the best corporation by the Korean Corporate Governance Improvement Support Center in its corporate governance performance evaluation</p> <p>2007 • Received the Excellence Award from the Korea Investors Relations Association (three consecutive years)</p> <p>2008 • Established the KT&G Scholarship Foundation</p> <p>• Established a local subsidiary in Russia and Iran</p> <p>• Received the Grand Award from the Korea Investors Relations Association</p> <p>• Awarded for reaching the \$400 million export target</p> <p>2010 • Included in the DJSI World</p> <p>• Completed construction of plant in Russia</p> <p>2011 • Acquired Trisakti (an Indonesian tobacco company)</p> <p>• Selected as the best corporation for corporate governance in 2011</p> <p>2012 • Received A Level in the ESG evaluation by the KCSG (Korea Corporate Governance Service)</p> <p>2013 • Developed low ignition point tobacco and flavoring capsule for tobacco filters</p> <p>• Selected as a No. 1 company in the tobacco category of the National Customer Satisfaction Index (NCSI)</p> <p>2014 • Won the Minister Prize of Trade, Industry and Energy at the 36th Energy Saving Competition</p> <p>2015 • Won the Presidential Prize at the 2015 Mecenat Award</p> <p>• Won the grand prize in the Korean HRD training facility sector</p> <p>2016 • Won the Grand Prize at the 2016 Korea HRD Award</p> <p>• Certified as a ‘leisure-friendly company’ by the Ministry of Culture, Sports and Tourism and selected as ‘Excellent Institution for Culture and Arts Sponsorship’</p> <p>2017 • Launched heat-not-burn products “il” and “fiit”</p> <p>• Selected as an excellent company in gender equality in employment by the Ministry of Employment and Labor</p> <p>• Awarded the 400 million dollar export tower</p> <p>• Won the Grand Prize at the 2016 Korea HRD Award (two consecutive years)</p> <p>2018 • Launched “il HYBRID”</p> <p>• Won A+ (the highest) Level in the ESG evaluation by the KCSG</p> <p>• Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family</p> <p>• Won the Presidential Prize for contributing to law and order by the Ministry of Justice</p> <p>2019 • Won the Grand Prize for corporate governance by the KCGS</p> <p>• Won the Minister of National Defense Award at the ‘Korea Volunteer Grand Prize’ by the Korea United Nations Volunteer Corps</p> <p>• Minister of Employment and Labor’s commendation for ‘person of merit in fostering social enterprises’</p> <p>2020 • Formed a partnership with PMI (Philip Morris International)</p> <p>• Korea Intellectual Property Association ‘Intellectual Property Management Company of the Year’ Commendation from the Commissioner of the Korean Intellectual Property Office</p> <p>2021 • Established a local subsidiary in Taiwan</p> <p>• Won the AA rating in MSCI (Morgan Stanley Capital International)</p> <p>• Won the Presidential Citation for Social Economy Promotion Merit</p> <p>2022 • Awarded the Korea Brand Hall of Fame (for four consecutive years in the category of cigarette-type e-cigarette)</p> <p>• Patriots and Veterans Month External Merit Award Appreciation Plaque</p>

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RECOGNITION & AWARDS



MSCI

MSCI AA
(2021, highest rating in the industry
for two consecutive years)

KCGS
한국기업지배구조원

KCGS A
(2021)

ESG Information, Analytics & Investment
SUSTINVEST

SUSTINVEST AA
(2021, in the entire ratings)

CDP
DISCLOSURE INSIGHT ACTION

CDP SUPPLIER ENGAGEMENT A-
(2021)



**2021 Korea Brand
Hall of Fame**
(for three consecutive
years in the category of
cigarette-type-cigarette,
2021, The Institute for
Industrial Policy Studies)



**National Brand
Competitiveness Index
1st**
(ESSE, twelve consecutive
years, 2021, Korea
Productivity Center)



**Brand of the Year 2021
Grand Prize**
(for four consecutive
years in the category of
cigarette-type e-cigarette,
2021, Korea Consumer
Brand Committee)



**Invention Day
Prime Minister
Commendation**
(2021, Korean Intellectual
Property Office)



Best Company
(2021, Ministry of
Employment and Labor)



**Equal Salary
Certification**
(2021)



**Social Economy
Promotion Merit
Presidential
Prize**
(2021, Minister of
Economy and Finance)



**Occupational Health
& Safety Management
System Certification
ISO 45001**
(2021)



**Energy Management
System certification
ISO 50001**
(2021, five domestic
business sites)



**Emergency Resources Management
Excellent Company**
(2021, Ministry of the
Interior and Safety)

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Vision and Management Philosophy

Vision

Catapult into the status of the internationally recognized company through maximization of corporate principles and values of our constituent members.

Corporate philosophy



Exemplary Company

KT&G Shall be a company sincerely complying with the social norms and reasons. We will become a company striving to realize the righteous path of future-oriented management by establishing the system of responsible management that values autonomy and creativity.



Inclusive Company

KT&G Shall become a company that makes contributions towards public interests and fulfills social responsibilities by not only creating and offering the maximum fulfillment and values for and to customers, stockholders and constituent members but also assertively accommodating social norms.



Progressive Company

KT&G Shall become a company that pursues changes and innovations themselves as a goal rather than pursuing them as means of accomplishing our goals. For this purpose, we will be continuously striving to build up creative corporate cultures.

Core Values

KT&G makes a concerted effort to realize its six core values.



Talent-focused

We secure and nurture talents who are the source of corporate growth and pursue mutual growth.



Challenging Spirit

We make approaches creatively with proper critical mind and lead changes with passion and tenacity.



Performance-oriented

We generate sustainable performances through empirical and traditional approaches as well as prompt executions.



Mutual Collaboration

We pursue optimization of the entire organization through mutual respect, considerations, and open communication.



Customer-centered

We provide customer values by thinking from the viewpoints of customers and practicing customer satisfaction.



Shared Growth

We fulfill our social responsibilities and obligations by practicing transparent and ethical management and sharing.

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Business Portfolio

KT&G Group engages in health functional food & living, pharmaceuticals & bio, and real estate businesses, as well as its flagship tobacco business. Based on professionalism in each sector and through change and innovation, we are committed to satisfying consumer needs and supplying trend-leading products, thereby pursuing balanced growth. Furthermore, we are laying the foundation for stable revenue generation and sustainable growth through the active market entry and continuous business structure innovation.

Yungjin Pharm Manufacture and sale of pharmaceutical raw materials and finished products

Being the leading pharmaceutical company in Korea, Yungjin Pharm has been operating for half a century with the vision of contributing to national growth and public health.

Korea Ginseng Corp. Manufacturing and sales of ginseng and ginseng supplements

As a leading manufacturer of red ginseng products that have inherited the proud tradition of Goryeo Ginseng, KGC is becoming a far-reaching global health business and striving to create a happier and better tomorrow for customers.

KGC Yebon Material Processing of Medicinal Herbs

As a healthcare company focused on natural products, KGC Yebon is contributing to the life and health of humanity by offering safe and reliable natural materials and products of high quality.

KGC Life & Gin Sales of health functional food and cosmetics

As a company in the Beauty & Health sector specializing in door-to-door sales of health functional food and cosmetics products, KGC Life & Gin strives to offer a better life to families and society by balancing the science of red ginseng with its natural materials.

COSMOCOS Manufacturing and sales of cosmetics and related products

COSMOCOS is committed to becoming a global beauty company capable of pushing the frontiers of beauty by creating new values.



Pharmaceuticals
& Bio



Tobacco

KT&G Manufacturing and sales of tobacco

KT&G boosts its enterprise values by creating a balanced business portfolio and actively conducting integrity and ethics, growing into a leading global company.

Tae-a Industry Manufacturing of Reconstituent Tobacco Sheet

As the only reconstituted tobacco leaf manufacturer in Korea, TAE A Industrial is expanding its business territory to overseas markets.

Tobacco **57.1%**

Real Estate **12.9%**

Cosmetics **1.2%**

Pharmaceuticals **3.6%**

Health Functional Food **25.1%**

*Creativity
Passion
Wise Insight*



Health
Functional Food
& Living



Real Estate

SangSang Stay Hotel Development and Management

Sangsang Stay strives to foster real estate professionals to generate profits by launching rental, operation, and financial investment projects.

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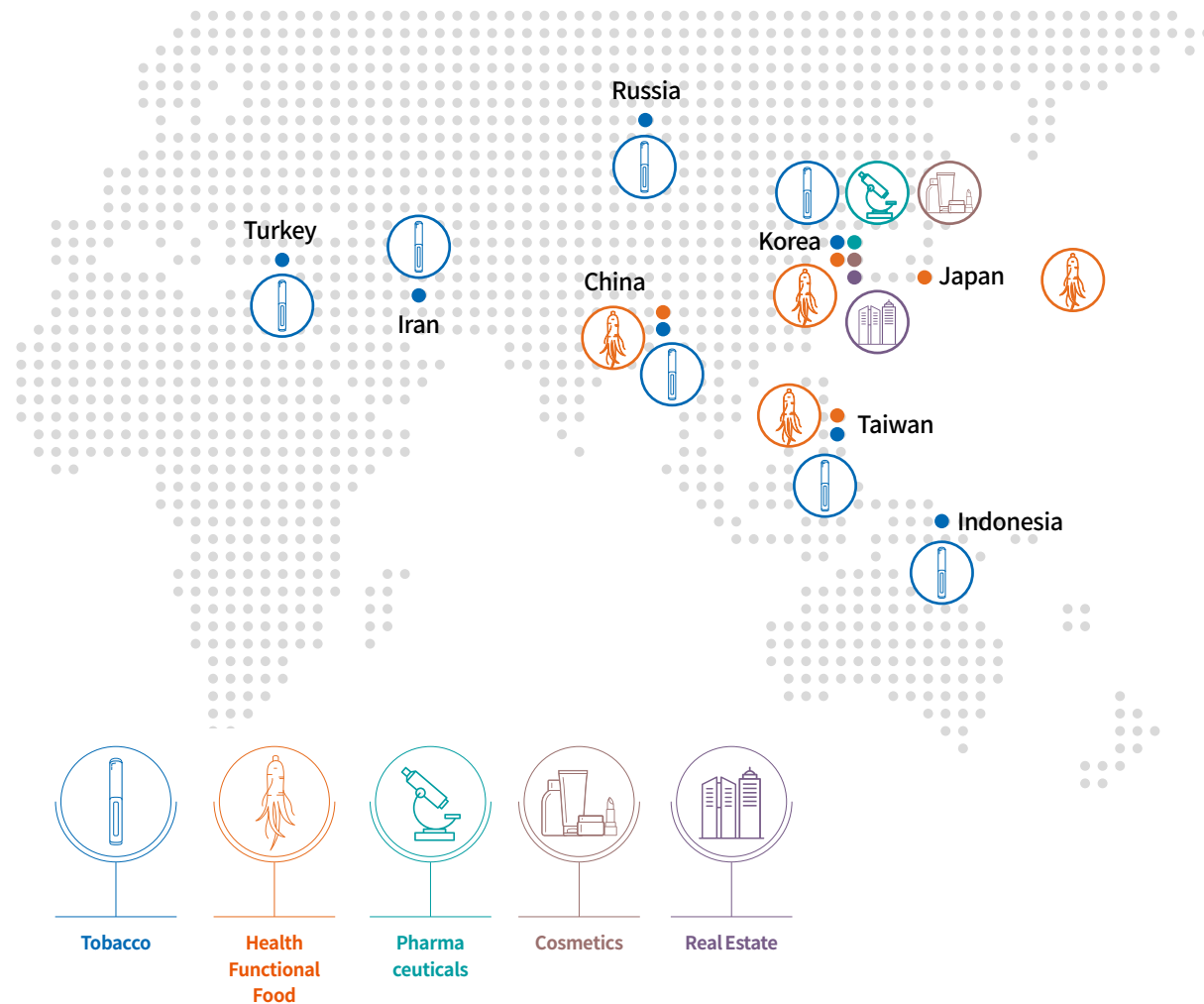
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GLOBAL BUSINESS NETWORK

KT&G Group has continuously expanded into the global market by capitalizing on its outstanding quality of products and accumulated competence in distribution and marketing. Our overseas branches and production facilities are operating in Russia, China, Indonesia, the US, etc., are effectively meeting growing demands. We are enhancing our brand value as a global business by expanding distribution infrastructure and enhancing human capital. KT&G is also running businesses in many fields: manufacturing and sales of red ginseng and other health functional foods, pharmaceutical products, and cosmetics, as well as projects centered on rental, operation, development, and financial investment in the real estate sector. As we advance, KT&G will build on our progress in the BIO and Health & Beauty businesses to strengthen domestic pharmaceutical technologies and improve customers' health and beauty. We will also fulfill our corporate responsibilities and duties by working towards the advancement of the national economy and revitalizing relevant industrial ecosystems.



Highlights by Business Unit

Tobacco

57.1%

- Sales : KRW 3.1321 trillion
- Export Destinations : 124 countries
- Number of Brands Exported : 579SKU

Health Functional Food

25.1%

- Sales : KRW 1.2928 trillion
- Proportion in Total Overseas Sales : 16%
- Number of Patents : 31 • Number of Trademarks : 926

Pharmaceuticals

3.6%

- Sales : KRW 196.1 billion
- New Products Approved and Offered for Sale : 16 items

Cosmetics

1.2%

- Sales : KRW 72.1 billion
- Progress in Research : developed 168 new products
- Number of New Clients : 37

Real Estate

12.9%

- Sales : KRW 710.1 billion
- Proportion in Total Sales : 12.9%

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Domestic Tobacco Business



2021 Highlights

 **KRW 1.66 trillion**
Sales (consolidated)

 **64.6%**
Market share

 **41.1 billion sticks**
Unit sales

BUSINESS OVERVIEW

Major Achievements

Despite the persistent COVID-19 pandemic, KT&G's domestic tobacco business has seen robust performance thanks to the sustained growth in 'odor-reduced/hypoallergenic' and 'ultra-slim' products. This year, the share of our cigarette products in the domestic market has reached 64.6%, a 0.6%p increase from the previous year, with a continued upward trend for seven consecutive years. As for sales, a total of 41.1 billion sticks were sold. We have successfully launched new cigarettes in line with market trends, including 「RAISON FRENCH ICE BLAN」, 「BOHEM CIGAR CARIBE」, and 「ESSE CHANGE gram」 and strengthened brand competitiveness by undertaking investment activities in major brands. Expansion of the lineup of odor-reduced products to 9 types increased their market share to 5.0%, a 0.9%p increase compared to the previous year. In addition, the market share of 11 types of 「ESSE CHANGE」 – a flagship ultra-slim brand – recorded 15.0%, a 1.4%p increase compared to the previous year. These outcomes demonstrate our efforts to maximize performance in our most vital sector.

Future Strategies

As we advance, we will continue to enhance our business competitiveness in the domestic tobacco sector to offer customers higher-quality products and develop functions that can satisfy their needs. We will also secure our position as Korea's best tobacco products provider by aggressively investing in developing new competitive products that reflect the trend of "hypoallergenic".

To realize the vision of becoming "Global KT&G," the Marketing Headquarter is playing a key role in accelerating KT&G's growth in the global market based on its outstanding leadership in the domestic tobacco business. Marketing is about working to create a venue for exchanging values, and at the very center of this effort are our customers. In this regard, we will focus on creating values for our customers and increasing their satisfaction as we work to secure sustainable competitiveness in a fast-paced global market through swift and innovative approaches.

Park Seong-sik Head of Marketing HQ



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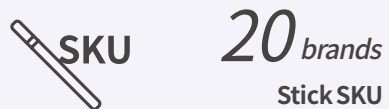
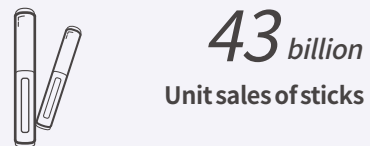
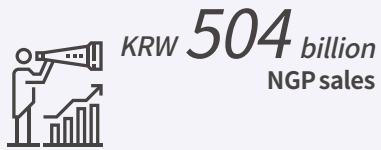
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NGP (Next Generation Products)



2021 Highlights



Major Achievements

In 2017, the NGP Business Unit launched “lil SOLID 1.0” – a cigar-type e-cigarette – and in 2018, launched “lil HYBRID,” which was developed with KT&G’s own technologies.

Since its initial development, lil SOLID has gone through innovative changes and began to come in a variety of models: 1.0, Plus, Mini, and 2.0. Lil HYBRID was also subdivided into 1.0, 2.0, and Ez. While upgrading technologies, the NGP Business Unit enhances brand value by collaborating with Swarovski, TaylorMade, Volvik, Soohyang, and many other brands. Such efforts had increased our share in the NGP market by 40%, a big jump from 2% when the NGP business was first launched.

Lil is attracting attention not only domestically but also in the global market. In 2020, we advanced into the global market in earnest by signed a strategic alliance with Philip Morris International (PMI), the world’s No. 1 tobacco company. In the first year of the alliance, Lil was launched in three countries. As of 2021, it was rolled out in 23 countries.

Future Strategies

With the aggressive market entry by global tobacco companies, including KT&G, and the growing demand among smokers’ for “Less Smell & Reduced Risk” products, the NGP market is expected to grow at an average annual rate of 15%. KT&G’s vision is to achieve a “global TOP TIER” by 2025 in the NGP market, which will be the core of the future tobacco industry. To this end, NGP Business Unit has set the goal to achieve a share of over 60% in the domestic NGP market and expand its operation to more than 50 countries.

We will continue our work to improve existing platforms and also strive to create an innovative platform by boosting our capacity to develop science-based products and securing source technologies, thereby meeting the growing needs of smokers.

In 2018, when KT&G entered the Next Generation Products (NGP) market, the global NGP market was worth KRW 33 trillion. In 2021, the global NGP market will see explosive growth to worth KRW 62 trillion in just three years. For KT&G to become a pioneer in this rapidly flourishing industry, it is essential to make ceaseless efforts toward innovation and take on new challenges. The NGP Business Unit will strive to make KT&G the global “NGP Top Player” by offering better alternative products to adult smokers.

Lim Wang-seop Head of NGP Business HQ



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Overseas Tobacco Business




2021 Highlights

 **KRW 943.7 billion**
Overseas sales
(consolidated)

 **45.3 billion sticks**
Unit sales
(consolidated)

 **124**
No. of countries
for export

 **36.1%** **579 SKU**
Sales proportion of
overseas subsidiaries No. of export
brands

Major Achievements

The overseas tobacco business unit branches out into the global market through business expansion and differentiation strategies. Despite the COVID-19 situation, our tobacco products were exported to 124 countries, 21 more countries than the previous year, backed by our vigorous efforts to develop new markets. Overseas subsidiaries of KT&G have sold 16.3 billion tobacco products, accounting for 36.1% of the entire overseas cigarette business unit by subdividing into multiple market segments, increasing distribution coverage, and reorganizing the sales group.

Future Strategies

We are planning to keep this growth momentum going by establishing different sales strategies for each subsidiary depending on their current stage of development and continuously improving them. As for our key overseas subsidiaries in Indonesia and Russia will deploy more staff and introduce company-wide collaboration systems for manufacturing, R&D, marketing, and quality. All these efforts will culminate in much higher fundamental competitiveness and faster progress.

KT&G is tapping into the global market by continuously expanding its overseas tobacco business. It is forging ahead with business expansion by subdividing existing subsidiaries into multiple market segments, adjusting sales coverage, and establishing new subsidiaries. It also fosters new promising markets in Latin America and Africa by constantly developing localized products.

Cho Jae-young Head of Global HQ



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Health Functional Food Business



2021 Highlights

KRW 1,292.8 billion
Sales (consolidated)

31
patents



926
trademarks
New intellectual
properties



1,586 workers
Contract for fresh
ginseng cultivation

Major Achievements

Korea Ginseng Corporation (KGC) sales are generated from domestic and overseas markets. Its products are categorized into red ginseng root, red ginseng products, general health functional foods, and cosmetics. In the domestic market, we are solidifying the demand base by expanding the distribution network centered on the “CheongKwanJang” brand and conducting customer-oriented marketing promotions by continuously developing new products. As of the end of 2021, our domestic sales reached 84% of the total sales, among which 65% were from major distribution channels such as affiliated stores, department stores, and large grocery stores.

Our overseas sales – comprised 16% of the total sales during the same period – have been steadily growing as we expand marketing activities in major locations (China and the US) based on business localization strategies. Furthermore, we are stepping up efforts to raise our global profile by expanding into new and existing markets.

Future Strategies

To make strides toward becoming a global healthcare giant, KGC will expand its distribution network by signing a strategic alliance with leading companies operating in overseas markets and stay committed to developing customized products for each market. At home, we will strive to excel in the health functional food market by fostering insights into the domestic market and customers and introducing marketing strategies that reflect consumption trends.

To keep up with the times and live up to customers’ expectations, KGC is undertaking constant changes and innovations with the vision of becoming a “global far-reaching Health & Beauty company.”

To this end, we are focusing on providing more diverse health food products in addition to red ginseng, fostering a business that takes a healthier approach to beauty, bolstering virtual businesses that reflect current trends, and broadening our global operations.

We are also pushing ahead with efforts to contribute to society in many ways. As we advance, KGC will overcome the volatility of the business environment to deliver its value of “Health and Happiness” to our customers around the globe by listening to their voices and exploring novel pathways.

Heo Cheol-ho CEO of KGC



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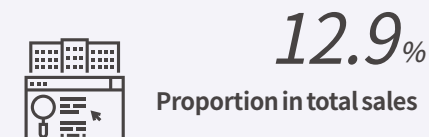
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Real Estate Business



2021 Highlights



Major Achievements

KT&G is constantly seeking real estate projects that can generate continuous profits, such as the development of offices or business hotels and real estate financial investment, based on the financial capacity of the tobacco business and idle land available for development. Also, in the housing sale market, KT&G provides consumers with a stable opportunity to purchase a home by promoting a business based on the company's credibility. In addition, we have carried out the Sejong Complex Development project based on the business know-how accrued through experience in several development projects such as the Dongdaemun Shopping Mall, housing projects in Jeonju, Daejeon, Andong, and Daegu, and office building development in Migeun-dong and Daechi-dong. The land development project in Suwon is currently in progress.

Future Strategies

Recently, the domestic real estate market has been experiencing heightened anxiety about tighter regulation amid prolonged market uncertainties stemming from economic sluggishness at home and abroad and weaker global supply chains. On the other hand, the market opportunity is increasing as the supply is still lacking compared to demand due to the continuous rise in demand for new housing, caused by the increase of 1-2 person households and the aging of housing in the metropolitan area. The Real Estate Business Headquarters plans to focus on three tasks to respond to market instability and maximize customer value. First, to lead the continuous growth trend of the real estate business, we plan to focus on solidly operating businesses that can generate sustainable and stable profits, such as real estate development, lease business, and financial investment. We will create effective results by establishing a balanced portfolio of sales and operation business, upgrading the business management process, and promoting new businesses through partnerships with high-quality financial institutions and construction companies. Second, we will build a diversified product portfolio considering the diversifying consumer needs and changes in market trends. We will actively seek to advance into new products such as high-end housing, distribution centers, and data centers from the current general housing and office development. Lastly, we will strengthen real estate ESG management by reflecting global ESG trends and related laws. We will strive to fulfill our corporate social responsibilities by selecting important core tasks such as zero-energy building, preventing major industrial accidents, and preemptively establishing and implementing response strategies.

In addition to solidifying lease business, financial investment, or other areas that can help us secure stable profits and establishing a balanced portfolio of sales business and operation business, the Real Estate Business Headquarters will actively engage in the public offering, bidding, and projects on large-scale lands by taking note of changes in the market environment. Moreover, we will strive to lay a foundation for sustainable growth by securing new lands and launching development projects in various ways. To respond to the changing real estate market and tighter regulations on occupational safety, we will also proactively adopt ESG management in our real estate business by, for example, constructing zero-energy buildings, thereby contributing to sustainable development.

Park Kwang-il Head of Real Estate Business HQ



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Pharmaceutical Business



2021 Highlights


KRW 196.1 billion
Sales (consolidated)



16 items
New products approved
and offered for sale



ISO 37001
CERTIFICATION



Major Achievements

Since its establishment in 1952, Youngjin Pharmaceutical Co., Ltd. has been a leading pharmaceutical company in the Korean pharmaceutical industry, dedicated to improving national economic development and public health under the noble mission of saving people suffering from diseases. Recognized for the ideals of “Medicine for Saving Lives,” innovative products, and excellent business potential to expand into overseas markets, Yungjin Pharm has won numerous awards such as the Presidential Prize, the Prime Minister Prize, and the Minister Prize. These achievements are a testament to our excellent business viability – including sustainability and the ability to produce innovative products – in the domestic and overseas pharmaceutical markets. As an affiliated company of KT&G, one of Korea’s major companies, we play a crucial role in the Bio/Pharmaceutical Business Unit. We are expanding our reach on the global stage by increasing exports based on outstanding capability in drug manufacturing and R&D.

Recognized for its global capabilities and potential for R&D investment, Yungjin Pharm received the “Innovative Pharmaceutical Company” certification. We also lead fair and transparent ethical management by adopting our voluntary compliance program and acquiring “ISO 37001” certification. In 2021, we obtained B+ in the ESG evaluation conducted by the Korea Corporate Governance Service, demonstrating our ability to sustain growth in ESG management.

Due to the global impact of COVID-19 in 2021, the number of patients with respiratory diseases continued to decrease, which result decline of sales of antibiotics, antipyretic analgesics, and antihistamines. However, such decreases were offset by a continued increase in the sales of medium-and-large-sized products – including the enteral nutrition product “Harmonilan,” medication for hyperlipidemia “Omaron,” and medication for idiopathic pulmonary fibrosis “Fybro Tab.” The domestic pharmaceutical industry has experienced continuous growth due to an increase in the elderly population, chronic diseases that emerged following the population aging, and rising demands for “Quality of Lifestyle” (QOL) drugs associated with higher income levels. It is a high-value-added industry that can thrive by expanding into the global pharmaceutical market, which will be made possible by increasing exports and producing meaningful R&D outcomes by developing new innovative drugs.

Future Strategies

As domestic pharmaceuticals and biotech companies are entering global licensing contracts recently, they are increasingly engaging in aggressive activities for open innovations to ensure closer collaboration. As we advance, Yungjin Pharm will further strengthen its product pipelines by developing new in-house drug products and, based on this, will rapidly access new overseas markets, including China.

To increase sales and profitability, we will focus on boosting operational productivity by putting our in-house products at the center of the efforts to increase sales and profits. We will also maintain close ties with our clients at home and abroad to secure sales and profitability and lay a foundation for growth by undertaking new projects.

The Pharmaceutical Business Unit will reinforce itself by improving productivity and ensuring effective operations within the organization. It will strive to become a global pharmaceutical company by working closely with outside entities (including open innovation), thereby creating synergy between its R&D and global business capabilities.

Lee Ki-su CEO of Yungjin Pharm



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Cosmetics Business



2021 Highlights



721 *KRW*
billion
Sales (consolidated)



developed
168
new products
Sales (consolidated)



37
Number of new clients

Major Achievements

COSMOCOS is a cosmetics manufacturer and provider. Starting with the launch of the “Flor de Man” brand in 1997, we have been boasting a portfolio of major brands such as “Danahan” and “RG II.” We have positioned ourselves as a key partner to ODM giants at home and abroad by offering advanced technologies and high-quality products. Last year alone, we further expanded our ODM business portfolio by securing 37 new clients. Regarding the cosmetic industry, products have shorter lifecycles, and trends tend to change fast. Moreover, the persistent COVID-19 pandemic has brought even more significant changes in this industry as non-contact channels begin to thrive and public awareness of green products increases. The recent easing of social distancing and other prevention measures has led to expectations that the pandemic will end soon. However, the cosmetic industry will face another massive change when this scenario happens.

Future Strategies

To respond promptly to the changing environment and fiercer competitions and to act swiftly to market changes, COSMOCOS is seeking innovative changes by enhancing online operations and reshaping distribution channels. Moreover, we are strengthening core competence for each brand and exploring new business models by constantly developing inventories. Our own new technologies developed through R&D are expected to bolster our response to emerging trends and cater to the different needs of consumers.

COSMOCOS holds international certifications in Cosmetics-Good Manufacturing Practices (ISO 22716, CGMP), Environmental Management System (ISO 14001), and safety and health management system (ISO 45001) certifications in the cosmetic manufacturing industry. In addition, we recently acquired an additional quality management system (ISO 9001) certification, increasing domestic and international reliability and moving closer to a sustainable management system. Based on this progress, we will bolster our ability to achieve sustainable growth by building an optimized production system and expanding our operations overseas by securing various distribution networks. We would like to ask for your continued interest in our efforts to become a global beauty giant.

With its differentiated technologies and products, COSMOCOS has made substantial progress in becoming a partner to major companies at home and abroad. While striving to re-establish our business portfolio and profit model to ensure sustainable growth, we are also working to offer better products by developing new materials and technologies and expanding our portfolio. To keep pace with market changes, we will bolster the ODM business by capitalizing on our R&D-based technologies and providing differentiated services on a larger scale. We are also determined to strengthen partnerships with our clients by undertaking various activities, devise a medium to long-term roadmap that leads to the greatest synergy, and realize a sustainably growing business.

Lee Jung-hun CEO of COSMOCOS



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Summarized Income Statement

(Unit: KRW 100 million)

	Consolidated			Non-consolidated		
Classification	2019	2020	2021	2019	2020	2021
Sales	48,077	50,553	52,284	29,426	34,354	34,905
Operating profit	13,747	14,732	13,384	11,346	13,370	10,834
Net profit	10,372	11,716	9,718	8,914	10,753	8,529
Comprehensive income	10,567	11,218	10,612	8,970	10,436	8,901
Earnings per share (KRW)	8,196	9,320	7,898	7,059	8,553	6,894

Summarized Financial Position

(Unit: KRW 100 million)

	Consolidated			Non-consolidated		
Classification	2019	2020	2021	2019	2020	2021
Current assets	64,172	67,504	62,559	43,142	47,082	40,090
Non-current assets	43,352	47,180	53,814	47,986	51,713	57,727
Total assets	107,524	114,684	116,373	91,128	98,795	97,817
Current liabilities	16,001	19,915	20,639	12,515	17,180	17,154
Non-current liabilities	4,128	3,853	3,645	812	1,076	661
Total liabilities	20,129	23,768	24,284	13,327	18,256	17,815
Total shareholders' equity	87,396	90,916	92,089	77,801	80,539	80,001

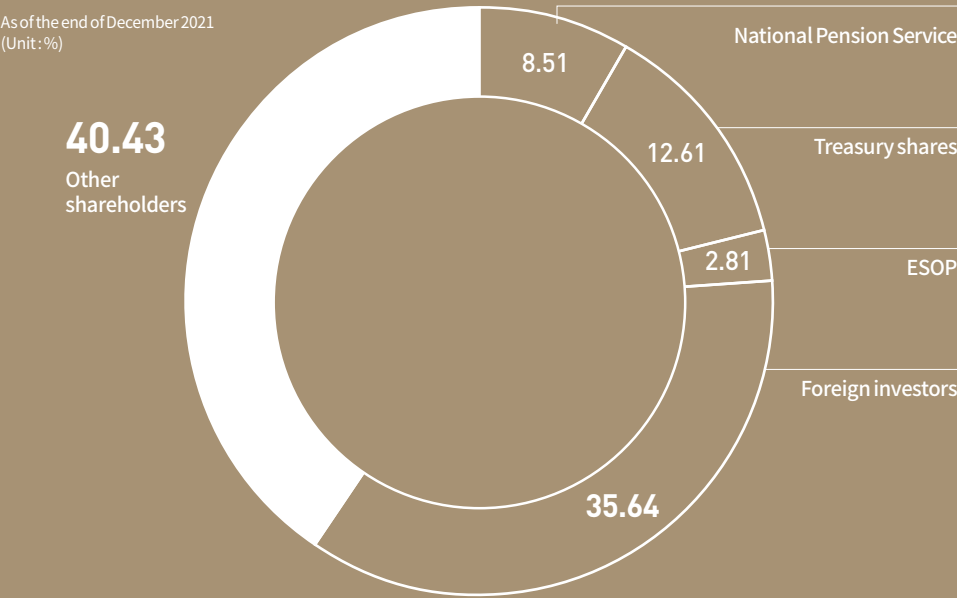
Major Financial Statements

(Unit: %)

	Consolidated			Non-consolidated		
Classification	2019	2020	2021	2019	2020	2021
ROA	9.6	10.2	8.4	9.8	10.9	8.7
ROE	11.9	12.9	10.6	11.5	13.4	10.7
Operating profit margin	28.6	29.1	25.6	38.6	38.9	30.7
Current ratio	401.1	339.0	303.1	344.7	274.1	233.7
Debt-to-equity ratio	23.0	26.1	26.4	17.1	22.7	22.3

Shareholder Structure

As of the end of December 2021
(Unit: %)



Dividend Payment

Classification	Unit	2018	2019	2020	2021
Total dividend paid	KRW million	505,061	556,952	595,584	575,904
(consolidated) Dividend propensity	%	55.7	53.8	50.8	58.9
Cash dividend yield ratio	%	3.7	4.5	5.5	5.7
Dividend per share	KRW	4,000	4,400	4,800	4,800

Voting Rights Status

Classification	Type	2021
Number of shares issued	Common share	137,292,497
Number of non-voting shares	Common share	17,312,574
Number of non-voting shares	Common share	119,979,923

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

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SUSTAINABILITY STRATEGY

2025 Empowering Sustainability for Growth

Sustainability Strategy at the group level

KT&G is highly aware that sustainability is the core of the company's innovation and growth. To strengthen the sustainability of our business model, we have expanded and reformed our sustainability promotion system at the group level. KT&G Group, including KGC, Yungjin Pharm, COSMOCOS, and other subsidiaries, will secure a growth momentum centered around ESG business and strengthen the business competitiveness while systemically carrying out the major ESG agendas that global stakeholders require.

Vision

2025 Empowering Sustainability for Growth

Future Paths



Establish Biz. Growth Momentum based on Sustainability Management

Advance Risk Management on Global ESG Agenda

Strategic Pillar

Major agendas

Focus on New Future Growth Engine of Tobacco Business	Strengthen the competitiveness of health and consumer-friendly products	Create sustainable business growth opportunities	Perform environmental responsibility across the value chain	Build a sustainable business ecosystem	Advance governance and strengthen execution capability
Tobacco Diversify NGP portfolio Strengthen science-based NGP development capabilities Implement responsible marketing principles	Health Functional Food Establish an eco-friendly brand identity Strengthen R&D to secure efficacy evidence and competitive edges in technology	Pharmaceutics-Cosmetics-Other Expand access to global healthcare through new products Intensify cosmetic ODM expertise based on clean beauty technology Expand ESG-based investment portfolio	Advance response to climate change Accelerate the circular economy Protect biodiversity	Pursue Global-Level Human Rights Management and Policy Realize an increase in social and environmental values in a farmhouse Enhance ESG capabilities of supply chain Expand value chain-related social contributions	Internalize ESG KPI at organization- and management-level Advance compliance management system Support ESG disclosures of subsidiaries



Kyung-man Bang
Senior Executive Vice President (COO/CFO)



KT&G has restructured the six Strategic Sustainability Pillars to discover ESG value-creation tasks in consideration of the business industry of the Group. Also, we can proactively manage ESG risks by implementing the Group's general standards, such as responding to climate change, circular economy, and enhancing ESG capabilities of the supply chain.

As we advance, KT&G Group will continue to monitor our sustainability activities and communicate with key stakeholders such as consumers, employees, partners, and investors to achieve tangible results through sustainability.



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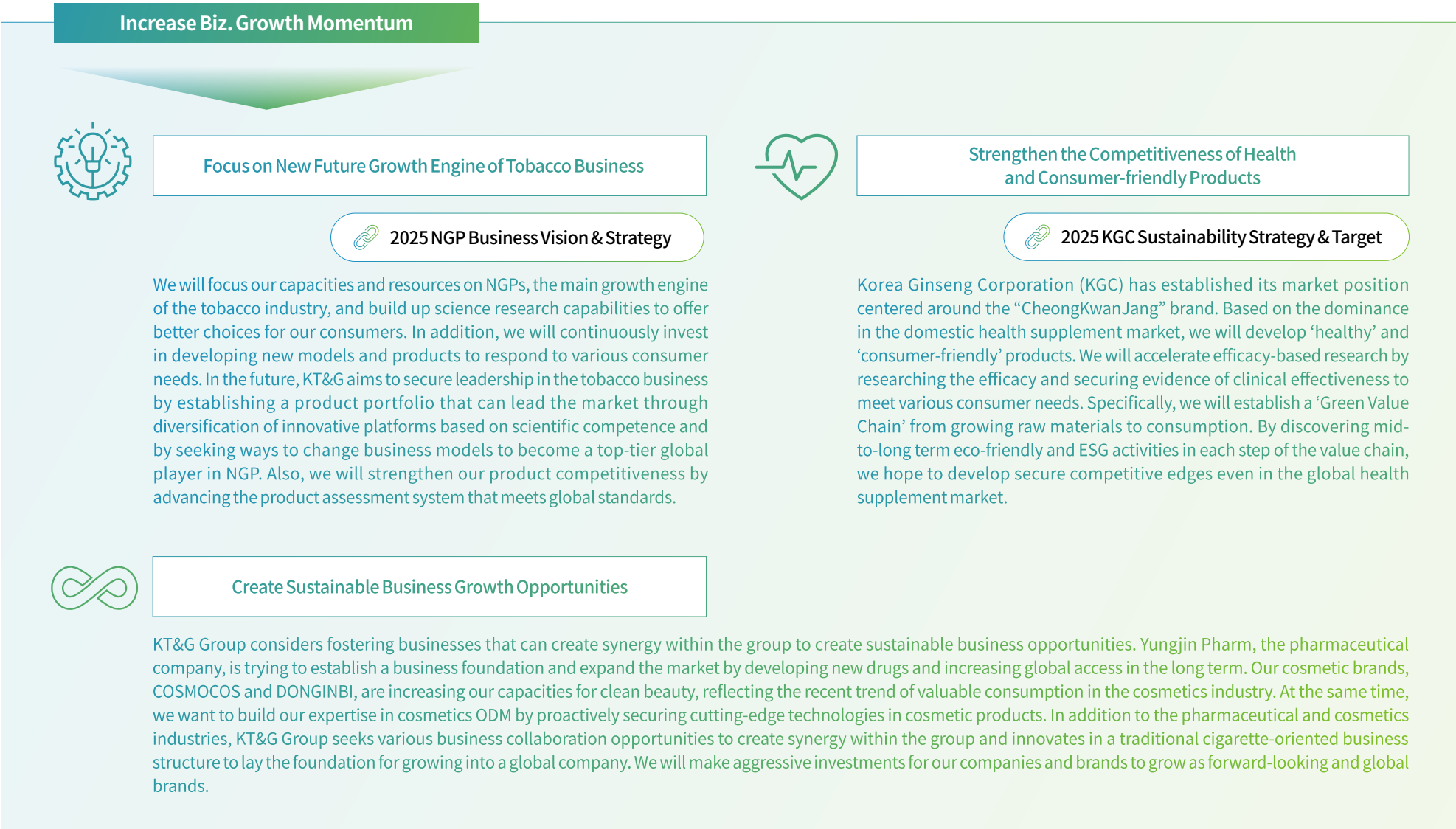
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KT&G Group Sustainability Strategic Pillars

From the perspective of the Group, KT&G established mid-to-long term directions and targets for sustainability management in each area of focus. Based on the directions and targets, we will monitor the progress yearly and actively communicate with stakeholders to improve our corporate values.



Managing Global Major ESG Agenda

Perform Environmental Responsibility across the Value Chain

KT&G Group hopes to find collective response measures against all adverse impacts our businesses pose across the value chain. Therefore, KT&G set the GHG reduction target of 31% across the value chain, and KGC set the reduction target of 25% at work sites by 2030. With subsidiaries, the Group aims to earn the SBTi (Science Based Targets initiative) certificate for our reduction targets. Furthermore, since KT&G has a high dependency on natural capital for its tobacco products, we're planning to join the TNFD (Taskforce on Nature-Related Financial Disclosure) as a preemptive measure against increasingly heightened biodiversity issues in the future. Additionally, to accelerate the implementation of a circular economy, KT&G plans to cut 20% of the water usage, while KGC plans to reduce the water usage per unit by 20% by 2030. since the Group has many direct consumer products, eco-friendly packaging is increasingly required as part of corporate social responsibility. Accordingly, KT&G will use 100% recyclable packaging materials, and KGC will promote activities to improve the recyclability of packaging materials, such as producing paper packaging boxes with 100% recycled materials through waste paper collection.

Build a Sustainable Business Ecosystem

KT&G Group strives to actively respond to social interests and regulations like the natural environment and labor rights. As part of the efforts, we plan to run campaigns* to manage the farms and establish sustainable production infrastructure for leaf tobacco and ginseng. We will produce raw materials in a sustainable manner that meets the environmental and social regulations while promising the best quality leaf tobacco and ginseng. Also, we will provide guidelines to raw material farms (such as leaf tobacco and ginseng) for compliance and implementation of regulations and adopt various measures such as cultivation training programs and on-site monitoring systems to improve farm sustainability. Additionally, we continue our ESG risks management activities, such as advancing ESG evaluation for partners and material suppliers. KGC will also adopt ESG evaluation for its major material suppliers and OEM companies to advance ESG management across the value chain.

* Sustainable Tobacco Program for tobacco farming, Sustainable Ginseng Program for Ginseng farms

Group-wide Sustainability Targets

Achieve 2050 Carbon Neutrality

- [Common] Promote SBTi-based reduction target certification
- [KT&G] Reduce 31% across the value chain by 2030
- [KGC] Reduce 25% within the worksite by 2030

Accelerate Circular Economy

Water

- [KT&G] Reduce 20% of water usage by 2030
- [KGC] Reduce water usage per unit by 20% by 2030

Packaging

- [KT&G] Use 100% recyclable materials
- [KGC] Produce 100% recycled paper packaging box through waste paper collection

Eco-friendliness of Products

- Evaluate the life cycle assessment of major products
- Manage value chain GHG emissions

Protect Biodiversity

- KT&G Group joins the TNFD (Taskforce on Nature-Related Financial Disclosure) initiative.

ESG Risk Management in Value Chain

- [KT&G] Adopt STP for farms & advance ESG evaluation for material partners
- [KGC] Adopt SGP for farms & 100% ESG Evaluation for major material/OEM companies

Global-Level Human Rights Management

- Assess and manage KT&G Group's effects on human rights



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2025 KT&G Sustainability Targets

Progress & Target advancement

In the previous year, KT&G set a mid-to-long term goal for 2025/2030 to accelerate the execution of strategic tasks in key areas and is enhancing internal performance by introducing ESG KPIs by top executives, executives, and units. In 2021, we achieved achievements such as reducing greenhouse gas emissions, reducing water usage, increasing waste recycling rates, and expanding contributions to creating a supply chain/ community. In addition, we further established ESG risk management and waste device recycling goals for global business partner companies to improve supply chain sustainability and advance greenhouse gas reduction goals. KT&G will continue to realize sustainable management by setting and implementing specific plans.

Pillar	Key Agenda	KPI	Scope	2020	2021	Progress	2025 Mid-to-Long Term Targets (Baseline: 2020)
Perform Environmental Responsibility across the Value Chain	Advance Response to Climate Change	Updated Target GHG Emissions (Scope 1+2)	Domestic + Overseas	123,908 tons	120,516 tons	↓ 2.7%	<ul style="list-style-type: none"> • Reduce 42% by 2030 • Transition to 100% zero-emission vehicle for business use by 2030
		Updated Target GHG Emissions (Scope3)	Domestic + Overseas	212,288 tons	204,962 tons	↓ 3.5%	<ul style="list-style-type: none"> • Reduce 25% by 2030
		Total	Domestic + Overseas	336,196 tons	325,478 tons	↓ 3.2%	<ul style="list-style-type: none"> • Reduce 31% by 2030 • Carbon neutral by 2050 (Scope1,2,3)
	Accelerate the Circular Economy	Water Usage	Domestic + Overseas	572,576 tons	564,194 tons	↓ 1.5%	<ul style="list-style-type: none"> • Reduce water usage 20% by 2030
		Waste Recycling Rate	Domestic + Overseas	57.1%	71.5%	↑ 14.4%p	<ul style="list-style-type: none"> • Achieve waste recycling rate 90% by 2030
		Recycling Packaging Material Use (by Weight) ¹⁾	Domestic	93.0%	93.5%	↑ 0.5%	<ul style="list-style-type: none"> • Use 100% recyclable packaging materials
		Updated Target E-Cigarette Device Waste Material Reuse (by Weight) ²⁾	Domestic	-	Review Establishment of System	→	<ul style="list-style-type: none"> • Achieve more than 80% of material recycling rate per discarded device
Build a Sustainable Business Ecosystem	Implement Responsible Marketing Policies	Non-Compliance Cases of Responsible Marketing	Domestic + Overseas	zero case	zero case	→	<ul style="list-style-type: none"> • 100% follow responsible marketing policies in Korea and exporting countries
	Reinforce Human Rights Protection	Worksites that Conducted Human Rights Effect Evaluation	Domestic + Overseas	HQ	HQ	→	<ul style="list-style-type: none"> • All local & overseas HQ conduct human rights effect evaluation 100%
	Improve Sustainability of Supply Chain	Updated Target Supply Chain ESG Capacity Management Area	Domestic + Overseas	Major domestic partners (materials, leaf tobacco farms)		→	<ul style="list-style-type: none"> • A responsible SCM and a sustainable partnership - The main material partners of overseas business sites: conducting an ESG audit 100% - Domestic leaf tobacco: supporting the farming environment through KTGO³⁾ - Overseas leaf tobacco: strengthening the management of leaf tobacco farms to Peer Group level through STP⁴⁾
		Amount Of Social and Environmental Contributions to Leaf Tobacco Farms (Includes the cumulative amount of Tobacco Production Stabilizing Fund)	Domestic	approx. KRW 484.9 billion	approx. KRW 500.9 billion	↑ KRW 16.1 billion	<ul style="list-style-type: none"> • Increase and materialize social and environmental values at leaf tobacco farms (Contributions KRW 520 billion)
		Amount of Value Chain Social Contributions ⁵⁾	Domestic	approx. KRW 800 million	approx. KRW 1.5 billion	↑ KRW 700 million	<ul style="list-style-type: none"> • Expand Value Chain social contribution more than two-fold

1) 2020 data differs from the previous year due to a classification change with some internal transactions upon material purchase.

2) Replacing last year's KPI, "Recycling Rate of Incoming NGP old devices (applying thermal-heat recovery method)," with the establishment of a material recycling system

3) KTGO : Korea Tobacco Growers Organization

4) STP : Sustainable Tobacco Program

5) Enhancing the smoking environment and environmental CSR activities

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Sustainability Management Governance

KT&G reinforces sustainability management by focusing on the Sustainability Committee and ESG Planning Team as the control tower to deliver better sustainability practices. We will clearly define the management's ESG and climate change responsibilities and link them to KPI to manage the performance and improve strategic responses. Also, we set an ESG TF (task force) with working-level councils at all business divisions to host meetings on each ESG agenda item and monitor detailed agendas and progress.

Sustainability Committee



ESG has been at the center of discussion at KT&G's general board meeting since September 2020. In February 2022, the Sustainability Committee was launched for a more constructive discussion. The Sustainability Committee reviews and approves major annual agendas for the mid-to-long term management of climate change issues while managing and overseeing the activities.

ESG Management Council



The Council, the top decision-making body, is composed of C-level executives of all business divisions and discusses ESG-related issues from the comprehensive perspective of the entire company.

ESG Planning Team



Directly under the office of the CFO, the ESG Planning Team functions as a control tower and plays a key role in establishing the ESG/Environmental Management System that meets global standards.

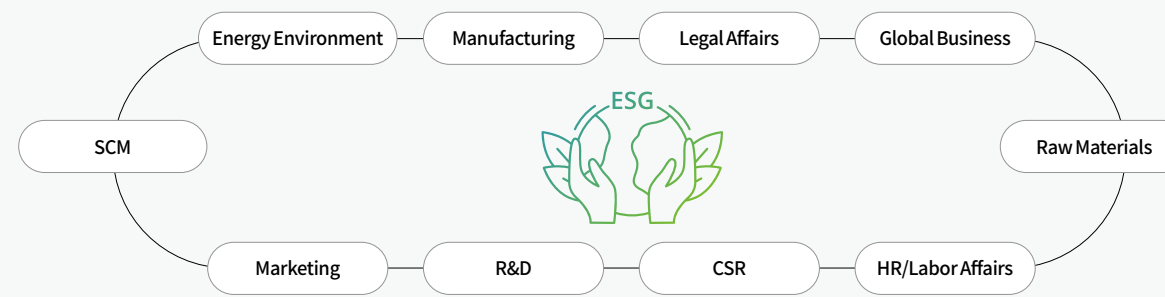
ESG/Environment Task Force



Composed of working-level employees in all business divisions, the TF hosts meetings for each ESG agenda item to adopt specific agendas for strategies and discuss the performance and plans for ESG targets.



ESG/Environment Task Force



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MATERIALITY ANALYSIS

Stakeholder Communication

For sustainable management, KT&G strives to clarify the awareness and interest of stakeholders in business-related issues and reflect them in the management activities. KT&G defines stakeholders as shareholders, investors, government, local communities, partners, customers, media, and NGOs. We established communication channels for each area, promoting active communication. KT&G will strive to maximize corporate value and carry out responsible management by preparing response plans for each major issue.



Stakeholders	Major Issues	Communication Channels
Stakeholders & Investors	<ul style="list-style-type: none"> • Maximize shareholders' value • Secure transparency of corporate governance • Stable mid-to-long term growth • ESG risk management 	General shareholders' meeting Management evaluation Business report/Sustainability report IR presentation
Government	<ul style="list-style-type: none"> • Comply with legal and social responsibilities • Job creation • Tax payment 	Policy meeting and seminar Opinion proposal system Public hearing/Advisory council
Local Community	<ul style="list-style-type: none"> • Cooperate to address local issues • Shared growth based on the development of local communities • Strategic social contribution activities • Preserve biodiversity and forest 	SangSang Planet SangSang Madang SangSang Univ Welfare foundation/Scholarship foundation Support leaf tobacco farms
Employees	<ul style="list-style-type: none"> • Build a good working environment • Co-prosperity of the labor and management • Protect the human rights of employees and support distress-handling 	Labor-management council Distress-handling system Intranet SangSang Junior Board
Partners	<ul style="list-style-type: none"> • Shared growth based on cooperation • Support the sustainability of partners 	KT&G Advanced Purchasing(KAPS) system Electronic Data Interchange (EDI) system Grievance handling system Supplier support programs STP for domestic leaf tobacco Workshops for partners
Consumers	<ul style="list-style-type: none"> • Develop goods and services that satisfy diverse needs • Improve customer satisfaction • Customer privacy protection 	Management disclosure Business report Reporting channels for unethical behavior SNS/Website CS center, Customer inquiry
Media	<ul style="list-style-type: none"> • Transparent and prompt disclosure of information 	IR activities Press release SNS/Website Sustainability report
NGO	<ul style="list-style-type: none"> • Social responsibility for local communities and the environment 	SangSang Fund Welfare foundation/Scholarship foundation

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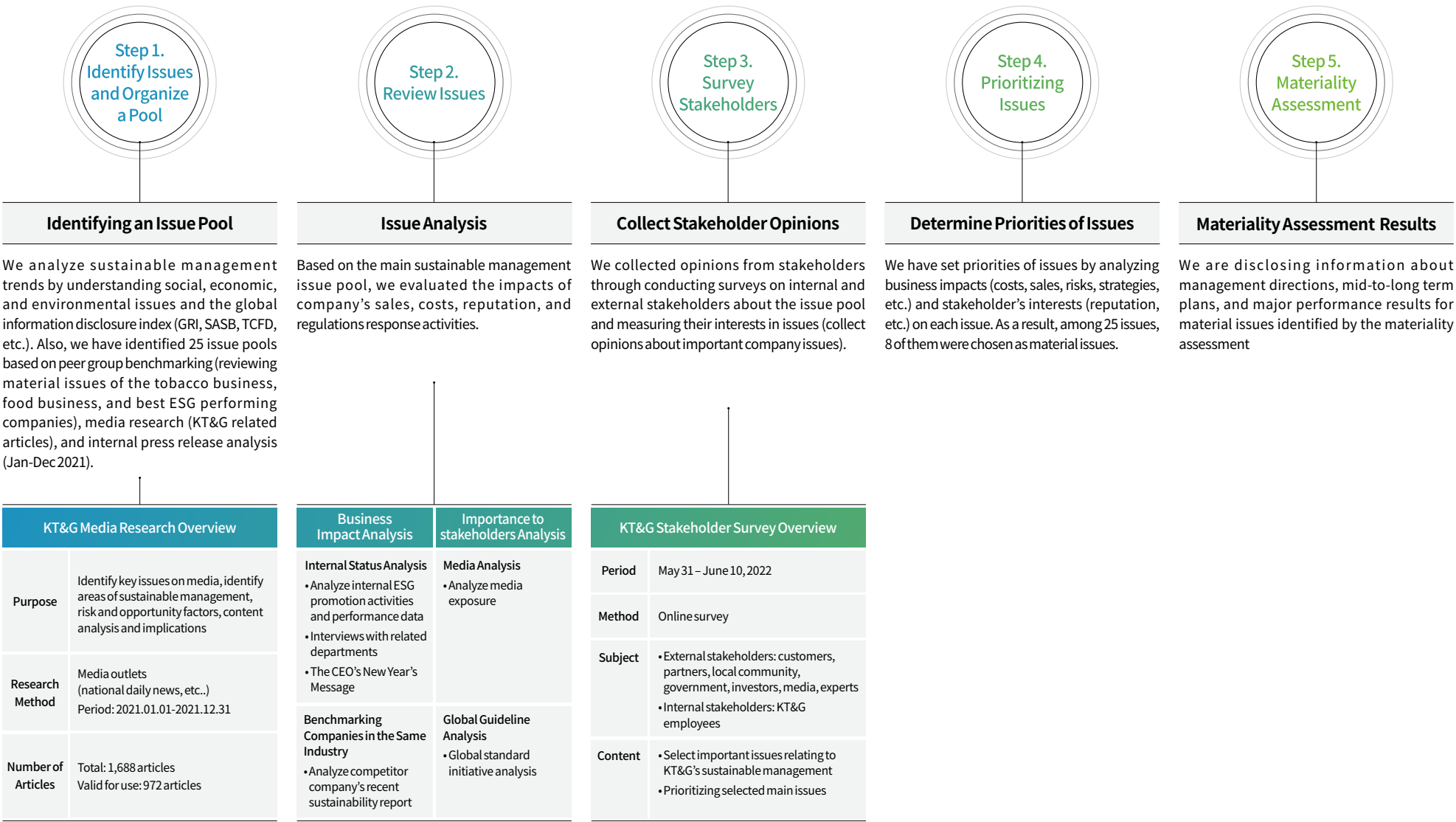
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MaterialityAssessment Results

MaterialityAssessment Process

To identify important issues related to sustainable management, KT&G uses global disclosed information index and evaluation system. Also, we conducted an important evaluation by benchmarking peer group cases, analyzing media and internal press releases, and conducting surveys on internal and external stakeholders. KT&G reports and confirms the selected issues with the Sustainability Committee at the end.



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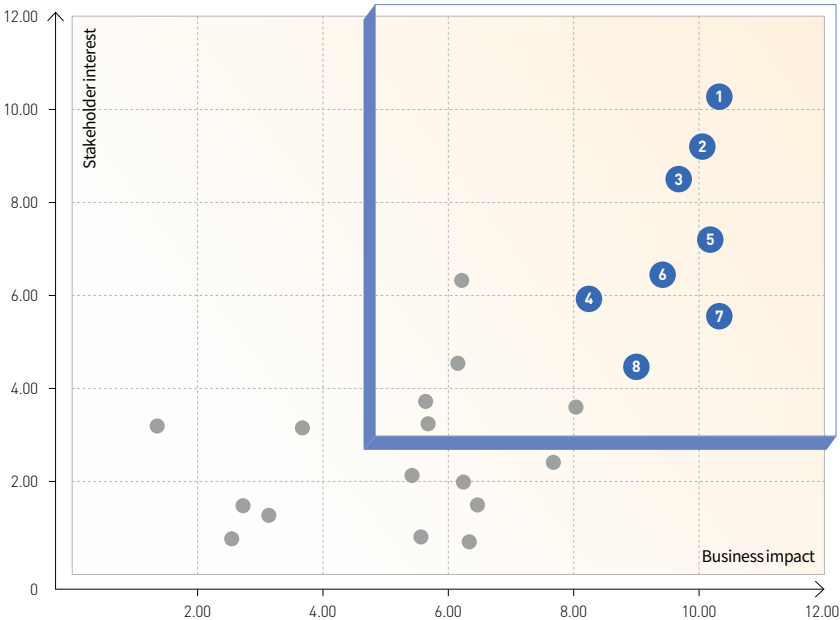
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Materiality Assessment Matrix



Issues		GRI Standards Topic	Stakeholder	Page
Material Issues	① Response to Climate Change	GRI 302-4 Energy GRI 305-1,2,3 Emissions	Customers, Partners, Local communities, Investors, Media	49
	② Manage Sustainability of Partners	GRI 414-1 Supplier Social Assessment	Partners, Employees, Investors	65
	③ Manage Waste and Harmful Substances	GRI 306-4, 5 Effluents and Waste	Customers, Partners, Local communities, Investors, Government, Media	133, 134
	④ Develop a Modified Risk product	GRI 416-1 Customer Health and Safety	Customers	11
	⑤ Disclosure on Corporate Governance	Non-GRI	Employees, Investors	99
	⑥ Corporate Ethics & Compliance	GRI 205-2 Anti-corruption	Employees, Investors, Local communities, Investors	Corporate Governance Report p.40
	⑦ Enhance R&D and innovation capability	Non-GRI	Investors, Media	41
	⑧ Diversity & Inclusivity of Employees	GRI 405-2 Diversity and Equal Opportunity	Employees	75
General Issues				
Outstanding Human Capital Employment and Maintenance		Transparent disclosure on tax	Privacy Security System	
Forward-looking & Creative Corporate Culture		Strengthen Employees' Capabilities	Eco-friendly Investment	
Human Rights Protection		Responsible Marketing	Customer Relationship Management	
Manage Eco-friendliness of Products		Water Management	Forest Preservation	
Contribution to local communities		Responsible Procuring of Raw Materials	Biodiversity Protection	
Risk Management		Widespread Safety and Health Culture		

Material Issues	Management Directions	Major Achievements	Mid-to-Long Term Plans	Target Year	Page
Issue 1. Response to Climate Change	<ul style="list-style-type: none">Analyze and disclose real and potential financial impacts of climate changeDiscover and expand GHG reductions activitiesExpand the consumption of renewable energyAdvanced inventory management of value chain emissions	<ul style="list-style-type: none">Reduce GHG emissions by 6,102 tCO₂e (1.8%) compared to the previous yearApply 1.5°C Climate ScenarioThird-party verification for Scope 3 and overseas plants GHG emissionsImplement the internal carbon pricing system & company-wide energy cost settlements	<ul style="list-style-type: none">42% GHG reductions (Scope1, 2), 2050 Carbon Neutrality(Scope1,2,3)25% GHG reductions (Scope3)100% convert all business cars to zero emission vehicle	2030	22, 43~52
Issue 2. Manage Sustainability of Partners	<ul style="list-style-type: none">Evaluate ESG of new and existing partners, identify and execute improvement activitiesEstablish a collaboration system for ESG (Green Impact Alliance) and trainingPromote ESG at leaf tobacco farms through STP	<ul style="list-style-type: none">Evaluate ESG management of partners 100% (purchase amount more than 95%)Third-party due-diligence and support for partnersEstablish sustainable agricultural policies	<ul style="list-style-type: none">ESG due diligence 100% for all global major partnersIncrease and materialize social and environmental values of leaf tobacco farms (Contributions KRW 520 billion)	2025	63~69
Issue 3. Manage Waste and Harmful Substances	<ul style="list-style-type: none">Improve reusability, recyclability, and renewability of products and packagingImprove resource circulation of e-cigarette device and packaging with partners	<ul style="list-style-type: none">Establish policies for sustainable products94% of packaging made with recyclable materialsEstablish a resource circulation system for device wastes	<ul style="list-style-type: none">Use 100% recyclable packaging materials for manufactured productsAchieve more than 80% of material recyclability per discarded device (by weight)Achieve 90% waste recycling by 2030	2025	22, 55~59
Issue 4. Develop a Modified Risk product	<ul style="list-style-type: none">Provide consumers with better choices based on modified risk product needsBuild product portfolio through diversifying innovation platforms based on scientific capabilities	<ul style="list-style-type: none">Achieved 40% of NGP market shareOverseas market, cumulative total of 23 countries	<ul style="list-style-type: none">Enter into 50 global countriesAchieve 60% domestic market shareSecure world-class scientific R&D capabilities	2025	31~35
Issue 5. Disclosure on Corporate Governance	<ul style="list-style-type: none">Reinforce transparent management by proactively disclosing the expertise and capabilities of the boardStrengthen risk management capabilities by reflecting international ethical standards in compliance with global standards	<ul style="list-style-type: none">Introduce the Board Skills Matrix to strengthen the governance systemStrengthen ESG KPI indicators for all group companiesEstablish KT&G group Code of Conduct	<ul style="list-style-type: none">Internalize ESG management by expanding ESG KPI indicators of all group companies	2025	98~105

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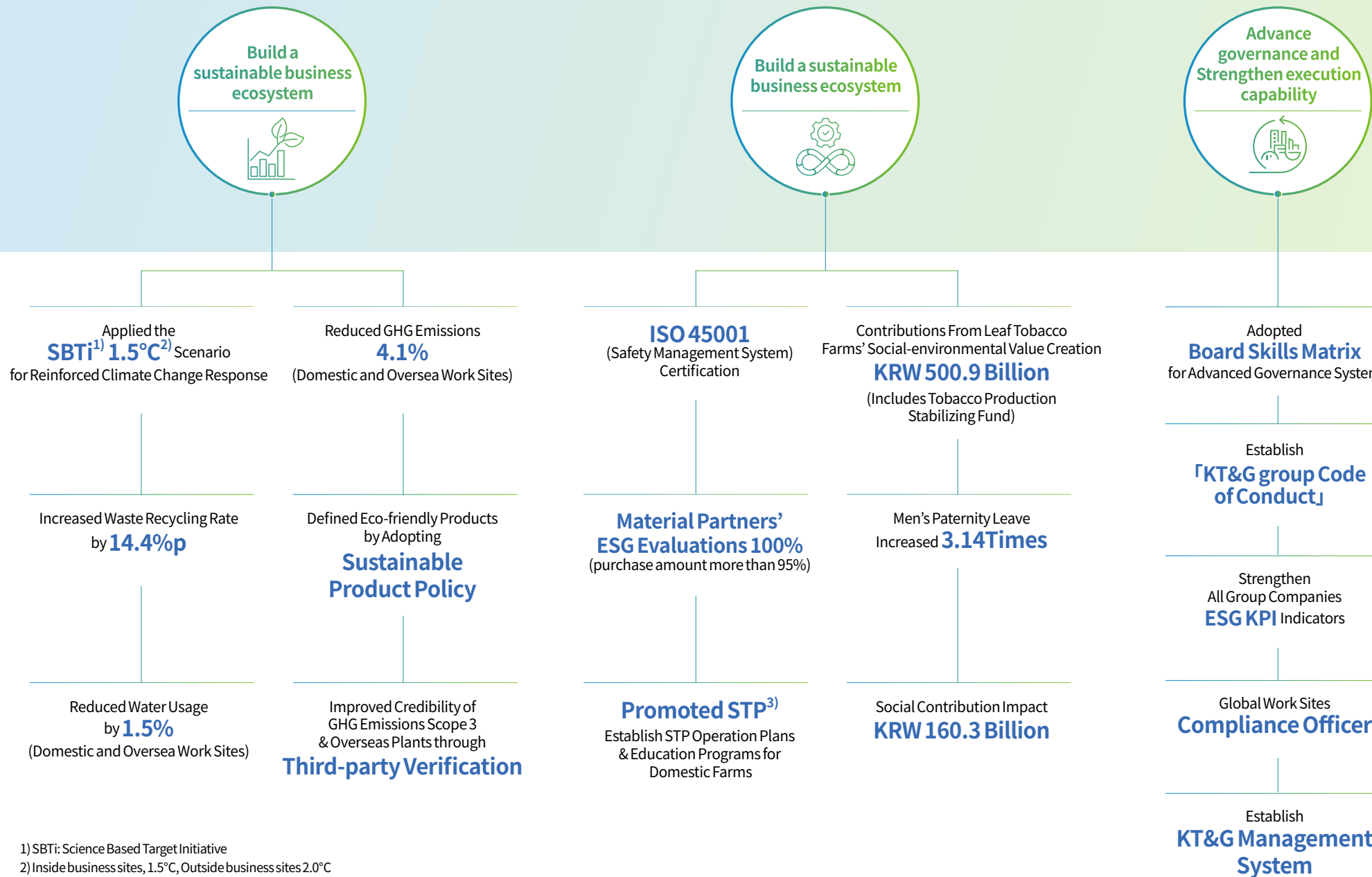
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2021 ESG PERFORMANCE HIGHLIGHTS



1) SBTi: Science Based Target Initiative

2) Inside business sites, 1.5°C, Outside business sites 2.0°C

3) STP: Sustainable Tobacco Program

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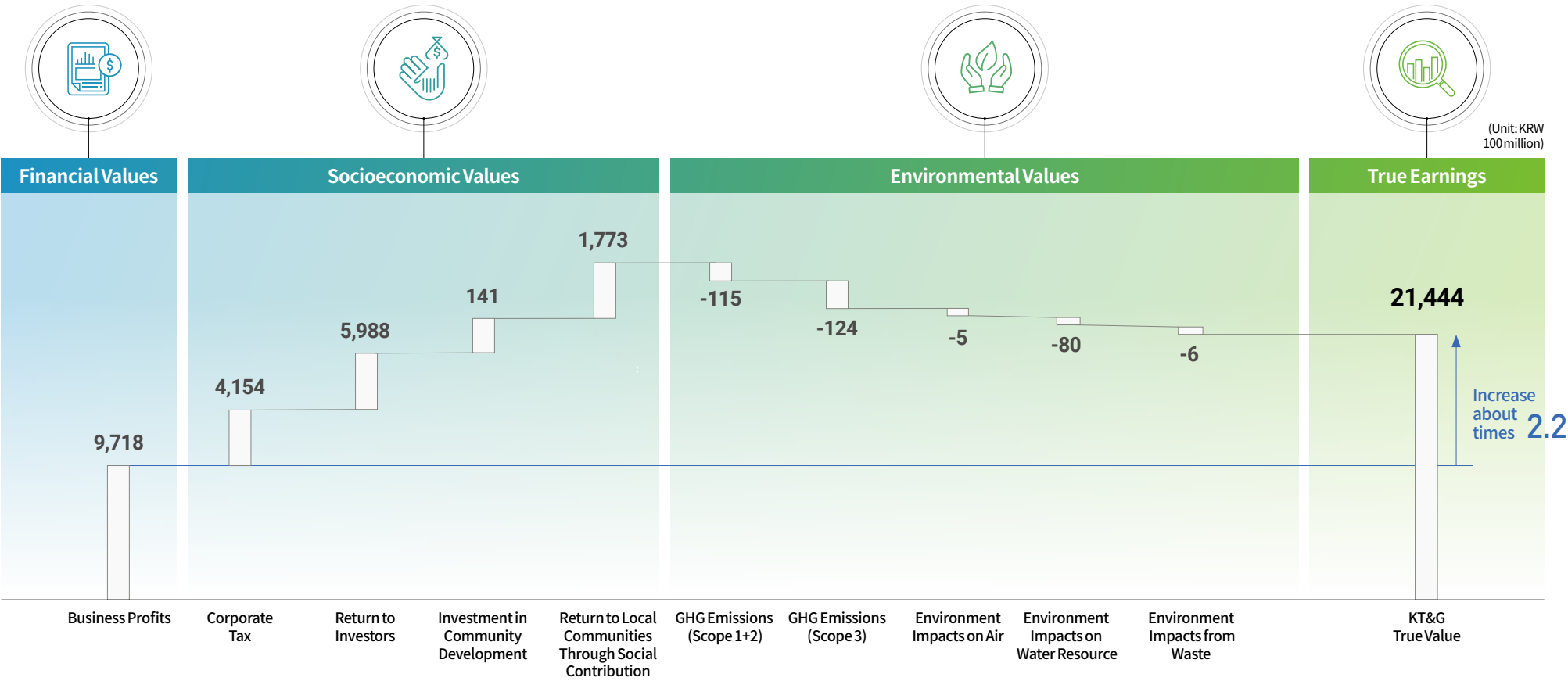
OUR IMPACT

Integrated Values Creation

KT&G endeavors to create economic values through business activities and expand social and environmental values across the value chain, contributing to building a sustainable society. As a part of the commitment, we intend to analyze our value creation level through sustainable management activities and seek the future direction of our company. To this end, we adopted the KPMG’s global value measurement model “True Value” methodology to analyze KT&G’s integrated value creation performance in 2021.

2021 Integrated Value Creation Result

The sustainable management values created from Jan 1 to Dec 31, 2021, are calculated to be KRW 2.1444 trillion when converting the values into a monetary unit. This number is more than two-fold the business profits generated by KT&G Group in 2021.



* The data above is derived based on various assumptions to manage the social impacts of sustainable management activities and establish value creation directions. Therefore, we cannot guarantee the integrity of data. The data may vary with the latest research result updates. The data should not be considered as a part of the disclosure of financial performance.

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Index Selection and Value Calculation




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

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

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

The currency value was adjusted considering the research time and each country’s inflation rates. The foreign exchange rate as of the end of 2021 was applied to the calculation.

Calculation Method by Index

Category		Type	Calculation Method ¹⁾
Financial Values 	Business Profits	Base	Net income created during FY2021
Socioeconomic Values 	Return to Investors	Benefit	Dividend and interest cost paid to investors and creditors
Environmental Values 	Return to Local Communities Through Social Contribution	Benefit	Donation for solving local problems (100%) Calculation of return on investment in educational supports and job creation project (118%) ²⁾ Calculation of return on investment in environment and infrastructure improvement project (250%) ³⁾ Calculation of return on investment in health support project (550%) ⁴⁾
	GHG Emissions	Cost	Calculation of social cost ⁵⁾ from Scope 1,2,3 emissions
	Environmental Impact on Air	Cost	Calculation of social cost ⁶⁾ from air pollutants (NOx, Sox, PM) emissions
	Environmental Impact on Water Resource	Cost	Calculation of social cost ⁷⁾ from water consumption
	Environmental mpact from Waste	Cost/ Benefit	Calculation of social cost ⁸⁾ from waste landfill, incineration, and recycling

1) Exchange rate on Dec. 31, 2021: KRW 1185.5/USD, KRW 1342.3/EURO

2) G.Psacharopoulos and H.A. Patrinos, Returns to investment in education: a further update (2004)

3) BCG, The cement sector: a strategic contributor to Europe's future

4) G. Hutton, Global costs and benefits of drinking-water supply and sanitation interventions to reach the MDG target and universal coverage (2012)

5) EPA, Technical Support Document: Social Cost of Carbon, Methane, and Nitrous Oxide Interim Estimates under Executive Order 13990 (2021)

6) CE Delft, Environmental Prices Handbook, EU28 Version (2018)

7) S&P Global TruCost PLC, Natural capital at risk: the top 100 externalities of business (2013)

8) A. Rabl, J. V. Spadaro and A. Zoughaib, Environmental impacts and costs of solid waste: a comparison of landfill and incineration (2009)

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Focusing on New Future
Growth Engine of Tobacco Business

KT&G has made it a top priority to provide better choices to consumers by expanding R&D investment and developing responsible products. To this end, we intend to establish a vision of a global top tier leap in the NGP market by 2025, and strengthen environmental/social responsibility activities on the value chain to build a sustainable growth foundation. To this end, we want to enhance future growth engines by securing world-class science capabilities and expanding our platform, and we plan to focus on increasing product eco-friendliness by developing eco-friendly materials and designing resource circulation.

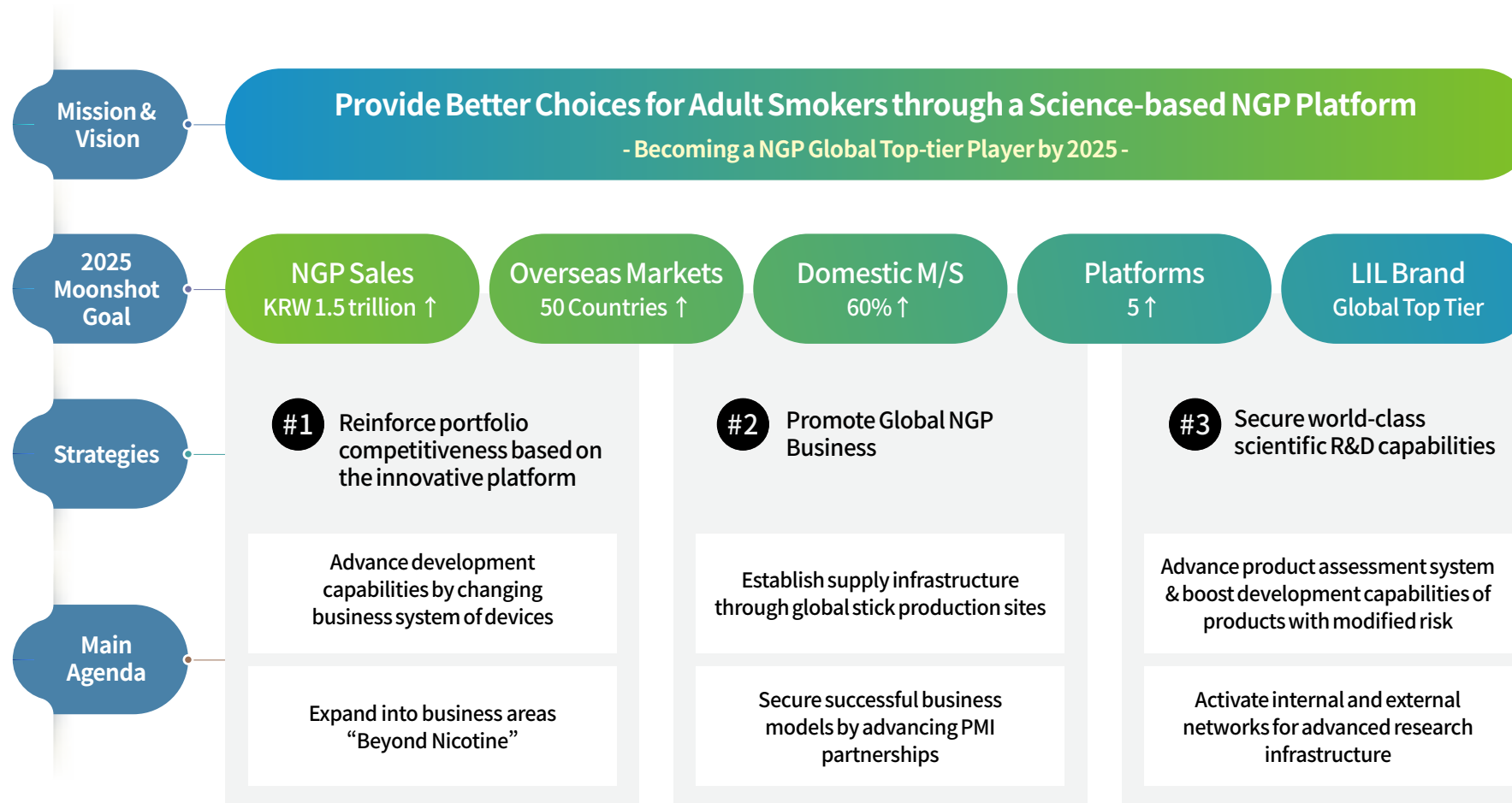
- 031 NGP (Next Generation Products)
- 036 Responsible Marketing
- 038 Product Safety and Quality
- 041 Research and Development

NGP(NEXT GENERATION PRODUCTS)

Accelerating global business based on scientific capabilities and innovative platforms

2025 NGP Business Vision & Strategy

We want to devote to the NGP (Next Generation Product), the core growth engine of the tobacco industry, to develop new models and products and meet various consumer needs. To become the Global Top Tier player in the NGP industry, we will develop a science-based NGP platform and promote changes in business models to boost our competitiveness in tobacco product portfolios. Also, we will advance the product assessment system that meets global standards to secure the competitive edges of our products.



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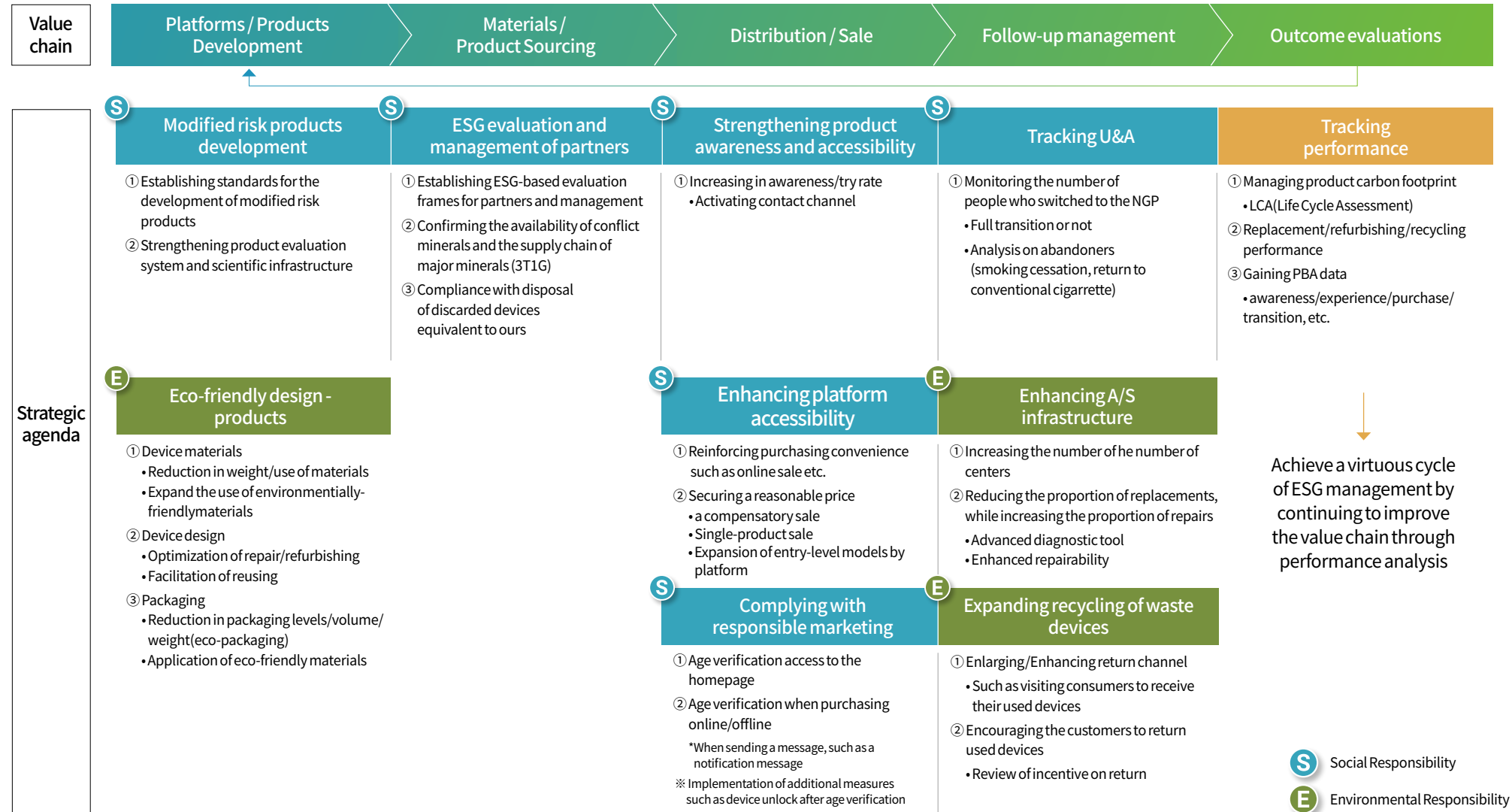
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Establishing Environment for Sustainable Growth & Increase Competitiveness

KT&G set a vision of becoming a global top tier company in the NGP industry the main growth engine of the future tobacco industry. To establish a sustainable environment, we are advancing the value chain from platform and product development to performance evaluation. We have identified 24 strategic agendas to that aim, including modified risk product development, partners' ESG evaluation and management, responsible marketing policies, collecting discarded devices, and performance track. We strive to make improvements in these areas.



* Environmental-friendly materials: foreign authentication or Renewable, recyclable, and recycled materials, biodegradation materials

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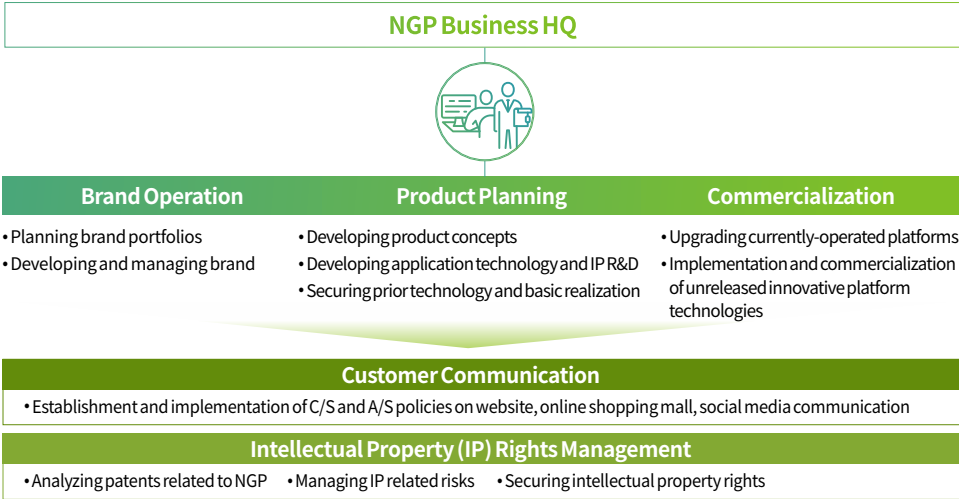
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Building Infrastructure for NGP Product Innovation

NGP Division Reorganization and Expansion

In July 2016, KT&G established the Product Innovation Office under the Marketing Headquarters and started developing NGPs. In 2022, it has been expanded and reorganized into NGP Business Headquarters, and NGP Business Office has been newly established under it. Furthermore, we expanded the organization of the NGP development office to establish a leading role in this field. Also, the R&D Headquarters expanded the stick development department for each platform and enhanced safety analysis and compliance functions.

We are making every effort to strengthen organizational and human resources infrastructures and cooperate with the NGP Business HQ and the R&D HQ to create synergistic effects for developing innovative products and reinforcing consumers' right of choice.



Major Activities and Achievements

Based on innovative platforms, the NGP business is constantly achieving positive outcomes in the e-cigarette market, with a stick share reaching 40% and a device share hovering at 76%* in the domestic market. In particular, lil SOLID 2.0, which vastly improved customer convenience, was released in February 2021 nationwide. Also, also, KT&G released special versions of lil HYBRID, an independent KT&G platform, which are Volvik and Soohyang, further leading the e-cigarette market. Moreover, despite the influence of the COVID-19 pandemic, we effectively dealt with a decline in offline sales by increasing the online sales of the devices. In addition, we have advanced websites, customer centers, and A/S operation systems, further diversified communication channels in the non-contact era. Moreover, KT&G entered into a strategic alliance with Philip Morris International in 2020 to expand our products into the global market. As a result, in 2021, KT&G's products additionally expanded into 7 EU markets such as Greece and 13 other markets, reaching a total of 23 overseas markets in the year.

* Market share – based on cumulative CVS as of 2021



Next Generation Product

	Unit	2019	2020	2021
Sales	KRW 100 million	2,265	2,792	5,040
Unit sales of sticks*	100 million sticks	25	26	43
Market share in the stick market (domestic)	%	32	34	40
Stick SKU	Types	14	17	20
Export countries	Number of countries	-	3	23
NGP patents applied	-	380	1,106	1,096
NGP trademarks applied	-	1,572	688	354
NGP design rights applied	-	281	71	87

* Based on the volume of shipments

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Major Technologies Applied for Patents

KT&G has achieved continuous research performance based on the NGP infrastructure to establish a leading role and enter the global market. Also, KT&G aims to establish an independent platform by securing our patent rights. To that end, it is actively investing in domestic and foreign patents.

NGP applications for three-years

Classification		2019			2020			2021			Total
		Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal	
Patent	Applied	188	192	380	349	757	1,106	392	704	1,096	2,582
	Granted	28	0	28	72	21	93	165	68	233	354
Trade-mark	Applied	62	1,510	1,572	56	632	688	17	337	354	2,614
	Granted	137	164	301	50	952	1,002	39	715	754	2,057
Design	Applied	37	244	281	25	46	71	28	59	87	439
	Granted	121	239	360	26	91	117	14	49	63	540

Expanding the NGP Portfolio

Diversifying Product Portfolio

In 2020, KT&G launched lil SOLID 2.0 and lil HYBRID 2.0, reflecting the customer needs, and continuously expanded stick portfolios for each platform to further reinforce customers' right of choice. In particular, in 2021, KT&G launched three different types of sticks (FIIT ICE+EST, MIIX SHINE, MIIX ALOHA), leading the market.



It is an NGP smoking platform that directly heats the medium in the stick. Heating the tobacco medium gives a similar feeling of satisfaction to a traditional cigarette, drastically reducing the cigarette smell thanks to its non-burning method.

10 Types of FIIT



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

10 Types of MIIX



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Platform Innovation of lil HYBRID

lil Hybrid is the first heat-not-burn product that uses cartridges and sticks at the same time. lil Hybrid 2.0 generates rich volume of aerosol, and users can keep the device clean as there is no residue after using it. Also, it reduces the negative smell as the stick is heated, not burned like traditional cigarettes.

lil HYBRID 2.0 has a new automated heating feature, 'Smart on', while maintaining the benefits of the 1.0 product, such as rich aerosol and reduced taste of heated-tobacco. Also, the display screen on the device shows the remaining puff number, charging status, and battery, enhancing customer convenience.

Additionally, to expand customer satisfaction and choices, both in function and design, KT&G collaborated with Volvik, a golf wear brand, and Soohyang, a fragrance brand, and launched 'lil HYBRID 2.0 Volvik Edition' and 'lil HYBRID 2.0 Soohyang Edition', further improving its products.

The new 'lil HYBRID' product line, lil HYBRID Ez, is a reasonable, low-priced model that offers the same core functions with affordability and convenience.

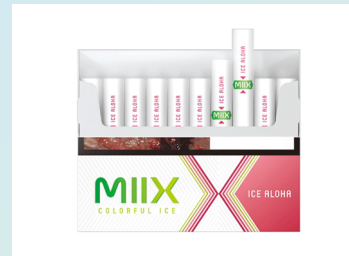


lil HYBRID 2.0 Volvik Golf Edition

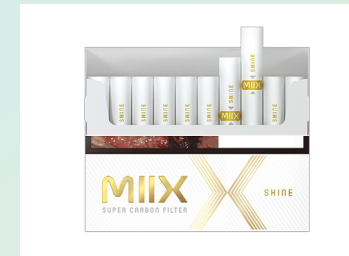
lil HYBRID 2.0 Soohyang Edition

New Stick Products (MIIX ICE ALOHA, MIIX SHINE)

NEW
STICK



We will diversify our product portfolio so that customers can choose from a variety of products that suit their tastes.



'MIIX SHINE' is unique because a super carbon filter is applied to have a traditional cigarette flavor. We will continue to actively communicate with our customers and increase the competitiveness of our products.

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RESPONSIBLE MARKETING

 **KT&G Responsible Marketing Policy**

KT&G strictly complies with national health promotion law enacted pursuant to the World Health Organization’s (WHO) Framework Convention on Tobacco Control (FCTC) and domestic laws related to tobacco business marketing and sales. In addition, we organized an internal control department within the company to improve the effectiveness of the policy by preemptively and regularly monitoring whether product marketing and sales are carried out in compliance with the marketing policy. Moreover, as we enhance the brand value by entering the global market, marketing activities are carried out responsibly in accordance with local tobacco control laws of exporting countries.

Responsible Marketing Policy

KT&G pursues responsible and sustainable marketing in compliance with the domestic and overseas laws enacted based on the FCTC of the WHO, protecting the rights of minors and customers. Also, we laid the foundation for building the trust of customers and stakeholders by contributing to creating a sound business regulatory environment. We have strictly limited youth’s access to our products by asking to verify one’s age on our website and are sponsoring various activities such as the ‘Youth Smoking Prevention Campaign’. We continue cooperating with external authorities in their controlling activities, striving to establish sound distribution and marketing practices. Furthermore, to ensure consumers’ reasonable choices and basic rights, we listen to the voice of customers through various channels and reflect them in our products and services.

Meanwhile, we recognize and support regulatory authorities in enacting a balanced and reasonable marketing regulatory policy after sufficient discussion and social consensus. The tobacco industry encompasses various interests such as protecting leaf tobacco farmers, export, tax payment, employment, and distribution. Responsible marketing policy applies to all our products, and we must comply with marketing regulations for each country and market where KT&G products are sold.



Compliance with Domestic and Foreign laws

- Marketing activities that comply with domestic and foreign laws including the tobacco Business Act
- Preliminary and regular inspection by internal control department

Youth Protection

- Youth smoking prevention campaign
- Establish a system that limits youths’ access to the products such as age verification on the lil website

Environment for Sound Business Regulation

- Support for reasonable marketing regulation policies through social consensus
- Cooperation with external institutions to build a sound distribution order including illegal tobacco control

Protection of consumer rights

- Guarantee consumers’ rights to reasonable choice
- Listening to consumer opinions through diverse channels

Responsible Provision of Product Information

- Marking of information, warning text, and warning pictures on all products
- Exclusion of emphasis on specific values such as sports, sexuality, and social success during marketing activities



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Responsible Marketing Activities

KT&G preemptively responds to any legal risk from advertisement, promotional materials, and other marketing activities and manages the risks. We consistently monitor the enactment or amendment of relevant laws and policy trends. Based on this, we run compliance monitoring processes to manage risks from violations of laws and regulations in advance. And when any high-risk issue is identified, we conduct a separate inspection to understand the internal status and reflect improvements. Additionally, we write internal compliance guidelines and distribute them to relevant departments to support their responsible marketing activities and run a legal information system that enables easy access to legal information 24/7, preventing risks in advance.

Going beyond distributing guidelines, we carry out training programs on marketing-related risks to raise awareness of its importance and have established a self-evaluation process to allow employees to self-check the implementation of policies. In 2021, we conducted a compliance check on the subject of ‘Marketing and Brand Advertising’ for employees of relevant departments. We strive to develop responsible marketing by checking awareness and compliance with the Tobacco Business Act, the National Health Promotion Act, and the Labeling and Advertisement Act and reporting the inspection results to the management and the board of directors.

For overseas offices, KT&G appointed a Compliance Office for every office to oversee the level of marketing implementation and compliance and created the manual for advertising operation and marketing investment management in the manual, commonly used in global business sites. In addition, we wil implement a systematic education course regarding regulations, actual examples, and monitoring that is relevant to both the domestic market and overseas market regarding monitoring both home and abroad so that all the employees can comply with regulations and prevent potential risks in advance.

Marketing, Advertising Training & Programs for Responsible Marketing

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

Major Activities	Schedule
Education & training for Laws and Policy Trends	Frequently
Self-inspection using a checklist • Domestic: Regular compliance check • Overseas: Check by the Compliance Officer	Regularly
Education on responsible marketing • Legislations and real-life examples, major issues • Monitoring • Manual	Regularly

Compliance check related to responsible marketing

KT&G conducts compliance checks on related employees every year to comply with responsible marketing activities. The compliance check on responsible marketing activities closely checks whether employees’ marketing activities comply with relevant laws and regulations through detailed questions such as prohibiting unfair display advertisements. KT&G will continue to make efforts to practice proper management through such activities.

Responsible Marketing Compliance Checklist Key Items (total 31)

- Whether children and adolescents prefer or use familiar concepts when establishing brand and design development plans
- Whether specific values such as sports, sex, etc. are linked and emphasized to tobacco products when establishing a brand and design development plan
- Whether a female or adolescent person is depicted in a product advertisement
- Whether to recommend or induce smoking directly or indirectly to non-smokers in product advertisements, etc

Litigation related to Marketing, Advertising

Classification	Details
Case number	Seoul High Court 2020Na2047374
Date of appeal	Dec. 10, 2020 (by NHIS / lost in the first trial)
Litigants	Plaintiff: NHIS (National Health Insurance Service) Defendant: KT&G and other two companies*
Litigation content	The NHIS filed a claim for damages against the defendants, claiming that approximately KRW 53.3 billion was used to treat diseases caused by smoking between 2003 and 2012.
Litigation values	KRW 53,319,553,950
Progress	Second trial in progress
Schedule	Date for pleading: August 24, 2022

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

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PRODUCT SAFETY AND QUALITY

Customer Safety



Certifications for Reinforcing Customer Safety

Classification	Institution	Type	Details	Initial certification
Leaf tobacco material	CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco)	International standard	Leaf tobacco that meets 118 safety standards	-
Non-tobacco material	KT&G	Independent standard	Preliminary safety evaluation of additives and materials and quality system conformity evaluation	-
Tobacco ingredients	KOLAS (Korea Laboratory Accreditation Schemes)	Certification	Quarterly assessment of tobacco ingredients conformity	March 2000
Cigarette Products	KFI (Korea Fire Institute)	Certification	Semi-annual certification of low-flammability cigarette fire prevention performance	July 2015
Next Generation Product	CB (IECEE, global standards for electronic equipment)	Certification	Safety certification system for product conformity testing for household electronic devices and similar devices	July 2020
	CE (EEA, principle of EU Council)	Certification	Integrated standard certification that satisfies all requirements of EU Council directives in relation to safety, health, environment and consumer protection	July 2020
	EAC (EAEU, Eurasian Economic Union)	Certification	Electronic device certification systems in 5 Eurasia countries (Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan)	April 2021
	PSE (METI, Japanese Ministry of Economy, Trade and Industry)	Certification	Mandatory certification according to the Japanese Electrical Appliances Safety Act	July 2020
	KC (National integrated certification mark)	Certification	Safety device and temperature control device to prevent overvoltage, overcharge, and over discharge in accordance with the enforcement regulations of the Domestic Electrical Appliances and Household Appliances Safety Management Act	October 2017
	KT&G's distribution tracking system	Independent standard	Distribution tracking system that records and manages the specific code of all products from the main material of the device (battery, etc.) to the final packaged stage (pallet). We completed the system for product shelf-life management, recall response process, and supply of optimal products.	June 2020
Workplace	SO (International Organization for Standardization)	Certification	Maintaining a systematic quality and environmental management system in the workplace based on ISO9001 (quality management system) standards	April 2020

Reinforcing Customer Safety



Leaf Tobacco Material
Leaf tobacco purchased by KT&G is managed in accordance with the management standards presented by CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco, World Tobacco Science Association), which major worldwide manufacturers and related organizations have joined. Before purchasing, we pre-analyze target items through a laboratory certified by ILAC (International Laboratory Accreditation Cooperation), an international testing and accreditation organization, and make purchases only when the safety of leaf tobacco is guaranteed.



Non-tobacco Material
Product safety is an integral aspect of businesses. In order to guarantee product safety, KT&G uses materials that have passed additive safety verification and quality conformity assessment. Additionally, the company is taking proactive measures to improve product safety by having domestic food appliances and containers certified for packaging standards for packaging materials.



Tobacco Components
Every year, tobacco manufacturers, importers, and sellers must request the tobacco component measurement institution (accredited by Korea Laboratory Accreditation Scheme) to measure the components displayed on the cigarette pack and obtain certification that the values labeled are correct. Every quarter, KT&G requested that a tobacco component measuring institution measure the components of all products sold and have the labeled components on cigarette packs certified for conformity. In addition, the KT&G Research Institute is a KOLAS testing institute and has been internationally recognized, for 21 years in a row, for its ability to measure tobacco components. As of 2021, it has guaranteed 111 products from 16 countries as requested by importing countries. On top of that, the KT&G Research Institute was recognized for its capacity to measure NGP products, which lack international standards, by KOLSA, and the institute has enlarged its measure by 51 components, further supporting the assurance of the quality of NGP products.



Cigarette Tobacco Products
The Tobacco Business Act mandates that starting in July 2015, cigarettes sold in Korea must use low ignition propensity, a fire prevention technology. Additionally, cigarettes must undergo pre-certification checks every six months to ensure that the technology is applied correctly before being released to the market. For this reason, KT&G acquires global testing capabilities for the technology and routinely evaluates the products to assure product quality and adherence to legal requirements. As a result, in the first and second half of 2021, 80 products sold in Korea were successfully certified for fire prevention by the Korea Fire Protection Industry and Technology Institute, a certification body of fire prevention technology.



NGP Device
We strive to ensure safety and quality control across the entire value chain, from sourcing raw materials to product manufacturing by achieving certifications and managing the life-cycle of products. For NGP devices, we have achieved domestic certification (KC) and international certifications (CE, CB, EAC, PSE). As we enter new foreign markets, we are securing the type of certification each exporting country requires. Notably, we have been evaluating the suitability of parts materials to produce and sell goods that meet the EU Tobacco Products Directive. Only the materials that have been proven safe can be used to manufacture devices. Such efforts are to ensure safety for our consumers. Also, we manage and improve the raw and subsidiary materials for NGP sticks to meet the international safety standards and our internal quality system accumulated with data. Recently, the international society has been calling to ban the use of conflict minerals such as gold, tin, tungsten, and tantalum. Along with product safety, we are trying to follow the international regulations about conflict minerals and establish a system that limits the use of these minerals.

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Chemical Substance Management Process

Management Based on the Chemical Substances Control Act

Based on the management policy on safety, health, and environment, KT&G implemented chemical substances management policies. Also, we established the SHE (Safety and Health Environment Review) IT system to better monitor and comply with related laws, including the Chemical Substances Control Act, Act on Registration and Evaluation of Chemical Substances, and Occupational Safety and Health Act. The SHE IT system thoroughly manages all chemical substances used in the workplace. New chemical substances must satisfy the SHE qualifications and go through safety evaluations in advance to prevent from using hazardous substances. Furthermore, all chemical substances are carried in only when each plant meets the conditions specified in the SHE Qualification.

Stored chemical substances are managed in accordance with the various regulations on equipping MSDS (Material Safety Data Sheet); keeping handling standards and facility standards; managing receipts and disbursements; licensing; managing storage facilities. To improve the accuracy of chemical substances' review processes and expand the horizon of activities at the Social Value level, KT&G shared review processes and requested more accurate basic information on chemical substances from its partners. Also, we visited manufacturers and distributors of raw and subsidiary materials. We listened carefully to their opinions in order to provide clear guidance on complying with laws in providing safety and health information. KT&G will launch a consultative body to improve the safety of chemical substances of all the manufacturers and distributors by providing information more systematically.

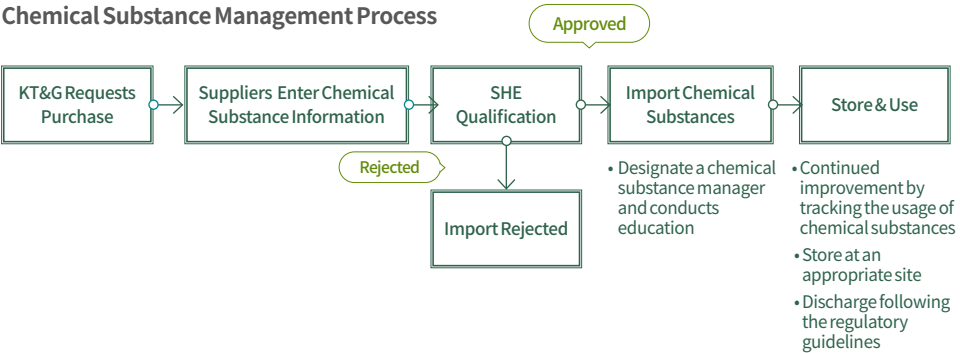
Chemical Substance Manager and Training

KT&G appointed managers for chemical substances to systematically manage chemical substances from preliminary examination to purchase to usage to discard. Also, we provide safety training on related regulations, safety management, accident response and evacuation, and how to handle harmful chemical substances for employees who use harmful chemical substances so that they can follow safety guidelines and laws. As part of chemical safety management activities, we will continue to provide guidelines and training courses. Further, we will carry out work safety evaluations and improve facilities to prevent chemical-related accidents from happening.

Chemical Substance Integrated Management System

The SHE managers assess licenses for each sector and assure compliance with legal requirements based on data provided by each chemical supplier. Only after the regulatory review of the chemical is deemed appropriate are the substances brought in. Chemical substances cannot be used when the providers' information is insufficient or falls short of the required standard. Chemical suppliers may request another evaluation after making revisions or supplying the necessary data. To build a safer place of business, KT&G will make a great effort in reducing risks related to chemical regulations based on systematic chemical substance management processes and strive for thorough management.

Chemical Substance Management Process



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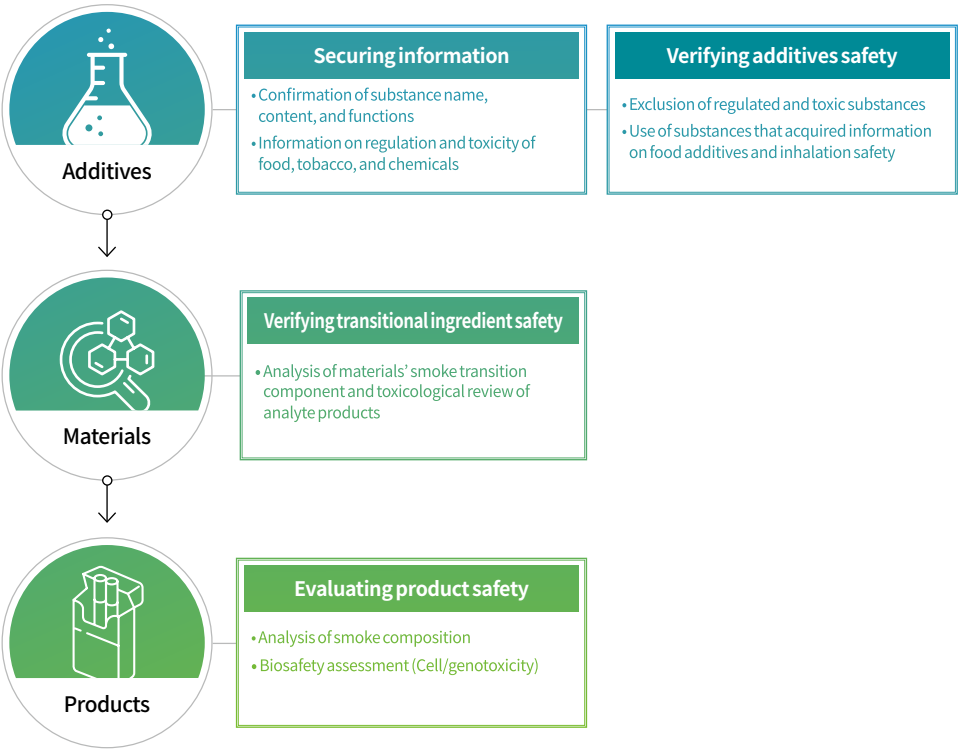
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Preliminary Safety Evaluation Procedure for Additives and Materials

To develop trusted and safe products, KT&G verifies the safety of products based on the principle of product responsibility from the initial stage of product development. Through scientific evidence-based evaluations such as toxicity evaluation and literature review, we only use materials that have been verified safe. At the same time, we make sure all the chemicals conform to domestic and foreign food/tobacco/chemical regulations. In the evaluation process, we exclude substances with toxicity such as reproductive toxicity, carcinogenicity, mutagenicity, and respiratory toxicity. Furthermore, we guarantee the safety of our products through biological safety tests and analysis of smoke composition at the product application stage.



Ingredient Analysis and Safety Evaluation for Aerosol, a Next-Generational Product

To provide accurate information to customers, KT&G strictly analyzes the entire process from developing to using the product. We put every effort into using approved chemical substances to promote customer safety. All raw materials for next-generation products must go through verification tests in advance. Also, we use food-grade flavoring agents and pharmaceutical-grade cartridge moisturizers for our products. Furthermore, all additives contained in next-generation products comply with EU REACH (Regulation (EC) 1907/2006) regulations and concerning substances such as EU SVHC (Substances of High Concern) and SIN List (Substitute Substances) are excluded. Cartridges and devices are used only for substances approved in accordance with the EU Regulation (EC) 1935/2004 on food contact materials, and all the materials of the next-generation products go through the screening of aerosol transition substances for the additional safety verification regarding detected substances. We control the upper limit of all next-generation products by analyzing aerosol analysis on 58 ingredients that are reported by the World Health Organization (WHO) / Food and Drug Administration (FDA) / Health Canada (HC), and it meets the standard for reducing emissions by more than 90% on average compared to reference cigarettes*. Before the launch, we carry out physicochemical testing and batch release testing to guarantee the quality of products. In 2018, through a qualified external analysis agency, we released study findings on the aerosol component contained in KT&G's next-generation tobacco products to international academic conferences, and the findings were highly recognized. KT&G will continue to introduce safe products by complying with advanced global systems and market regulations based on strict internal standards so that we can satisfy customer expectations.

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

Animal Testing Policy

KT&G first considers ways to replace animal testing, and even when conducting animal testing, it considers the promotion of human welfare and the dignity of animal life. In this case, KT&G shall endeavor to practice animal life protection, safety guarantee, and welfare promotion at a level beyond that required by the relevant laws and regulations.

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RESEARCH AND DEVELOPMENT

R&D Strengthening System

R&D Organization

The R&D Headquarters has 4 different organizations, Product Research Lab, Future Technology Research Lab, Analysis Research Lab, and R&D Planning Office, with each organizational expertise and focus areas. Through organic cooperation among the four organizations, we are reinforcing our technology leadership. In 2021, in line with the mid-to-long-term R&D vision , we restructured relevant project teams with new ones for NGP preliminary research capacity and new R&D businesses. Furthermore, we are promoting the early internalization of core technologies by adding 20 more experts with master’s and doctor’s degrees and more research infrastructure.

Research Institute	Research Areas
Product Research Lab	<ul style="list-style-type: none">• Develop traditional cigarette and NGP products tailored to both domestic and international market and improve existing products• Satisfy consumer needs and develop differentiated items
Future Technology Research Lab	<ul style="list-style-type: none">• Research raw materials, materials, and flavor and preliminary research for NGP• Research base technology for future new business areas technology
Analysis Research Lab	<ul style="list-style-type: none">• System operation for scientific verification of product quality and safety• Operate an international accredited testing institutes (KOLAS) and conduct international joint research
R&D Planning Office	<ul style="list-style-type: none">• Establish mid-to-long-term R&D strategic goals and manage projects• Creating, protecting and managing R&D intellectual properties

R&D Direction

KT&G continues to strengthen its scientific ability to verify product performance, quality, and safety improvements through know-how built for years. Also, with increased social responsibility on the tobacco industry for its impact on public health, transparent communication based on scientific R&D with customers is becoming all the more critical. To this end, our company is proactively securing new technologies that can lead the industry and promote research expansion into new business areas with future potential to establish the foundation for sustainable development from early on.

Responsible R&D

R&D Activities

To improve R&D efficiency, we’re actively tapping onto external sources, building distinct cooperation in each area, and securing necessary technologies. In the area of new technologies, we are commissioning and conducting joint research with the industry, academia, and research and government-funded research institutes. In the area of new businesses, we are adopting know-how from early on through strategic partnerships with leading institutes and discovering opportunities to create new values. Particularly, starting from 2021, we are closely cooperating with prestigious universities in Korea such as Seoul National University, KIST, and Chuang-Ang University to secure promising technologies, and will continue to expand the areas of cooperation further in the future.

Strengthening R&D Capabilities

To improve external credibility and strengthen expertise in research procedures and results, we vigorously conduct an objective review of our research activities. With an excellent evaluation system and test abilities, we have been maintaining the status of an accredited testing agency, qualified by KOLAS, in the tobacco industry for 21 consecutive years. And we actively interact and cooperate with overseas experts through international joint research and academic activities with CORESTA, ACS, and others, promoting the global standardization of our activities. In addition, we are gradually strengthening our research capabilities not just to discover the impact of chemical and biological action, but also to minimize the negative impact on public health.

List of Joint Research with CORESTA/ACS

Host Institution	Content of Joint Research	Research Area
CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco)	<ul style="list-style-type: none">• Comparative verification of analysis results to establish CORESTA standard analysis method• Verify the global-level analysis capabilities of the KOLAS system to maintain its operation	Smoke Analysis Agrochemical Analysis Physical Test Method Heated Tobacco Products
ACS (Asia Collaborative Study)	<ul style="list-style-type: none">• Verify the global-level analysis capabilities of the KOLAS system to maintain its operation	Analysis of major smoke compositions
University of Kentucky	<ul style="list-style-type: none">• Secure credibility of analysis through comparative skills testing of standard cigarettes	Analysis of smoke and leaf cigarettes compositions

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R&D Performance

Expand New Technology-based Market Values

We are expanding consumer choices by proactively developing the next-generation platform’s core technologies and diversifying the portfolio to expand the market. Also, we are increasing consumer satisfaction home and abroad by improving the product’s taste and quality and applying differentiating items.

Invigorate Creation of Intellectual Property Rights

KT&G is actively running an employee invention activation program, “Patent Week”, which is about constructing and concretizing ideas through employees’ voluntary participation and applying for patents with the help of patent experts. Furthermore, we have systematized IP strategies through the establishment and advancement of KT&G’s patent portfolio. Such achievements have allowed us to strengthen our technology-based product competitiveness and contribute to an increased market share around NGP’s original platforms. In 2021, on the 56th Invention Day, KT&G received the Prime Minister’s Citation for our distinguished contribution to the advancements of our nation’s intellectual property systems.

Major tasks of R&D patent

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

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Performing Environmental Responsibility across the Value Chain

Environmental Management Vision System and Directions

KT&G established the ‘KT&G Green Impact’, an environmental management vision and strategy system focused on reducing the impact of climate change and transforming the circular economy to reduce risks and discover business opportunities due to climate change. We are promoting various projects to effectively achieve a mid-to-long-term goal in terms of GHG reduction, carbon neutrality, water saving, and waste recycling. We also endeavor to cut negative environmental impacts across the entire value chain beyond just worksites and to create shared value with stakeholders.

Applied the
SBTi 1.5°C Scenario*
for reinforced climate change response

Defined Eco-friendly
Products by Adopting

*Sustainable
Product Policy*

GHG Emissions
at Scope 3 & Overseas plants

*the Third-Party
Verification*

*SBTi(Science Based Target Initiative)

GHG Emissions
by *2.7%*
(Domestic and overseas work sites)

Increased Waste
Recycling Rate
by *14.4%p*
(Domestic and overseas work sites)

Reduced Water Usage
by *1.5%*
(Domestic and overseas work sites)

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GREEN IMPACT PATHWAY

KT&G is committed to implementing key challenges to minimize environmental impacts across the value chain.

① Expand recycling of discarded NGP devices

Progress

In 2021, established thermal energy recycling system
In 2022, established material recycling system

Short-Term Goal

By 2022, achieve more than 40% recycling rate per device
Encourage consumer participation to increase the collection volume

Mid-to-Long Term Goal

By 2025, achieve more than 80% recycling rate per device

② Expand social contributions contributing to the value chain (more than double in 2025)

Consumer Use & Discard

① Convert all business cars to EVs 100%

Progress

Adopted 6 EVs for test learning at logistic centers and branch in Yeongdeungpo

Short-Term Goal

Convert to EVs at branches and logistic centers in metropolitan areas

Mid-to-Long Term Goal

By 2030, 100% Convert to EVs

② Cooperate with partners for eco-friendly SCM management

① Reduce GHGs

Progress

Accumulated conversion of factory high-efficiency lights (LED) to approximately 12,500 locations Replacement of high-efficiency facilities such as refrigerators

Short-Term Goal

By 2023, introduce Factory Energy Management System (FEMS)
By 2024, expand the renewable energy use by installing solar power on the roof of the factory

Mid-to-Long Term Goal

By 2030, reduce GHGs by 42% compared to the 2020-level (Scope 1+2)
* Reduce Scope 3 by 25%
By 2050, Carbon Neutral (Scope 1+2+3)

Product Planning & Development

1

① Research and Apply Eco-friendly materials

Progress

Define 'KT&G eco-friendly products' and advance four major areas by revising Sustainable Product Policy

Short-Term Goal

Apply 100% recyclable materials

Mid-to-Long Term Goal

Develop new materials like eco-friendly filters and alternative technologies

② Review the design of minimizing carbon footprints throughout the life-cycle

② Purchasing Materials

① Improve efficiency of dryers at leaf tobacco farms

Progress

Establish an annual promotion plan for dryer efficiency devices supply

Short-Term Goal

By 2022, plan to distribute 85 fuel-reducing devices for leaf tobacco farms

Mid-to-Long Term Goal

By 2030, install total 4,000 efficient devices for dryers

Logistics

Manufacturing & Work Sites

② Reduce and recycle water

Progress

Reduce 3,577tons/year of direct reuse for wastewater treatment plant discharge water cleaning Improve water-saving infrastructure (supply of water-saving devices, etc.)

Short-Term Goal

By 2023, expand the use such as cleaning tower, etc. by additional water reuse facilities

Mid-to-Long Term Goal

By 2030, reduce water usage at work sites by 20% compared to the 2020-level

③ Reduce and recycle waste

Progress

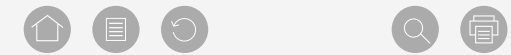
Reduce waste such as material packaging waste and wastewater sludge, etc. Recycle conversion of waste plastic, wastewater sludge, etc. Improve recycling rate by 17%p

Short-Term Goal

In 2023, reduce the process by-product
By 2023, discover additional ways to recycle difficult-to-recycle waste

Mid-to-Long Term Goal

By 2030, achieve waste recycling rate more than 90%



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ENVIRONMENTAL MANAGEMENT VISION SYSTEM

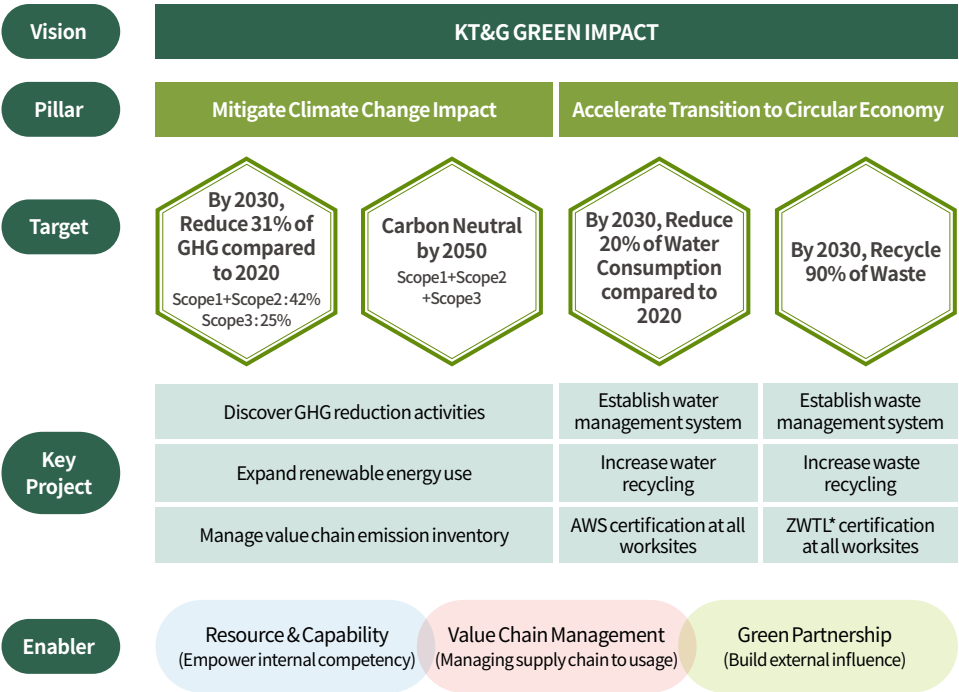
Establishing the Environmental Management System

KT&G strives to minimize negative environmental impacts during business operations and across the value chain by carrying out specific targets for sustainable management visions and strategies we set forth. To reduce greenhouse gas emissions, we have established mid-to-long term reduction targets by the Science Based Target Initiative (SBTi), a global science-based reduction target. We aim to verify SBTi within 2022. In 2022, we have upgraded the target of reducing greenhouse gas emissions by 2030 based on the 1.5°C scenario, which requires more reduction than the well-below 2°C scenario. By 2030, we aim to reduce our internal operations by 42% compared to 2020 and reduce our overall value chain emissions, including Scope 3, by 31%.

Also, some of our mid-to-long term goals to accelerate a circular economy include a 20% reduction in water usage and 90% of worksites' internal waste recycling rate by 2030.

KT&G promises to reinforce environmental responsibilities and internalize environmental management to create 'KT&G Green Impact' and meet the needs of a global society.

Environmental Management Vision System



Environmental Management Governance

KT&G is establishing the environmental management system with three main organizations: the Sustainability Committee, the top decision-making body, the ESG Management Committee, the decision-making supporter, and ESG Planning Team, the control tower in implementing practical challenges. ESG Planning Team identifies strategic agendas to minimize environmental impacts in business operations and establish mid-to-long term goals based on the agendas. Also, the ESG Planning Team reflects changes in business environments and revises the related targets while organizing and managing the ESG Task Force.

To advance our environmental management, we promoted the Energy Environment Technology Team under the Manufacturing HQ to the Energy Environment Department. The Energy Environment Department manages the company's environmental management performance based on the mid-to-long term goals. Also, we are accelerating implementation to minimize environmental impact by establishing and implementing detailed strategies such as conversion to renewable energy, improvement of energy efficiency, expansion of water reuse, and minimization of waste landfill.

Each organization has a designated person in charge of environmental performance. Through organic cooperation with the Energy Environment Department, each organization operates relevant processes per agenda. Each plant has a designated manager for each area to ensure that environmental management is adopted on-site systematically and consistently.

Role and Responsibility in Executing Detailed Environmental Management Tasks by Stage



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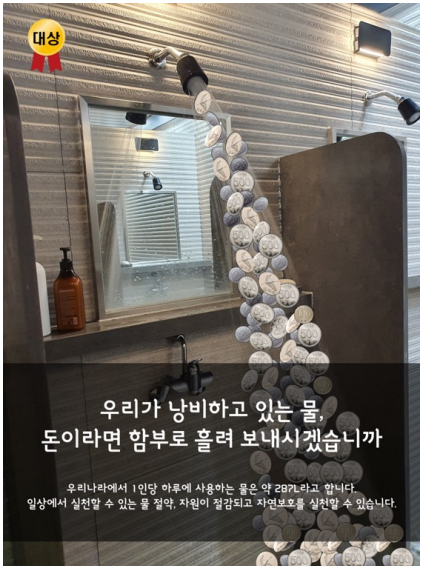
Environmental Management Polices

KT&G understands the full impact of business operations on the environment and tries to minimize them by establishing Green Impact environmental vision and environmental management policies. Everyone in the value chain, including KT&G, and internal and external stakeholders, is expected and encouraged to observe the same level. There are also best practices sharing and training programs for all employees to raise their awareness about the importance of environmental management and encourage participation.

Environmental Management Certification

Since the first ISO 14001 certification in 2005, KT&G has maintained the certification in five plants (Sintanjin, Yeongju, Gwangju, Cheonan, and Gimcheon). Therefore, we are operating environmental management system that meets the global standard. At each plant, we monitor production activities' environmental impacts on neighborhoods and try to minimize them. Also, we made the management process more sophisticated to accelerate energy reductions and increase energy efficiency, linking with GHG reductions. As a result, in 2021, 5 domestic plants (Sintanjin, Yeongju, Gwangju, Cheonan, Gimcheon) earned the ISO 50001, the certification for Energy Management System. In the future, KT&G will continue to strengthen our management in environmental areas through a systemic process operation based on global standards.

 KT&G Environmental Management Policy



Energy Conservation Poster Contest

Raise Awareness of the Environmental Management through Training and Campaigns

To spread participation and consensus among employees, KT&G is conducting environmental campaigns such as promoting various eco-friendly idea contests and posting winning works in factories. We host contests for energy and water-saving posters and slogans, and the winning works are posted to create common grounds and raise awareness within the company. Also, we are conducting training such as purchasing technical books and receiving professional education. For this perception to lead to changes in habits and behavior, we provided self-produced video training to employees and partners of all factories to improve their understanding of KT&G's environmental management and suggest ways to practice it during actual work. We also carry out 'must-green' & waste-picking campaigns to encourage employees to use tumblers and participate in daily environmental protection activities with our family. We will make increased efforts to improve our understanding of environmental management and internalize it.

Environmental Education Progresses

Education	Target	Education Institution	Date
Practical ESG Management Video Education Video	All employees in manufacturing and materials department, all partners in the plants	Educational video made by the Manufacturing HQ (online)	May 2021
GHG Management Talent Nurturing Education	HQ energy manager, energy manager in each manufacturing and materials plants (total 6)	Korea Foundation for Quality (1 in-person in May, 5 online in August)	May/Aug 2021
Building Energy Management System (BEMS)	1 HQ energy manager	KMA (online)	May 2021
Benchmarking energy saving excellent companies for education	36 energy technicians in manufacturing and materials sectors talent pool	Foundation of Agri. Tech. Commercialization & Transfer (online)	June 2021
Heat and Electricity Energy Saving Education	36 energy technicians in manufacturing and materials sectors talent pool	KMA (online)	Jun-Jul 2021
ESP* Food Division Working Session Participation and Education	HQ energy environment technology team leader, energy manager in each manufacturing and materials plants (total 6)	Korea Energy Corporation (in-person)	Jul 2021
ISO 50001(Energy Management System) Internal Reviewer Education	HQ energy manager, energy manager in each manufacturing and materials plants (total 6)	CNM MANAGER	Aug 2021
1st K-RE100 Consulting Support Participating Companies Education and Meeting	Energy environment manager and staff (total 2)	Climate Change Center	Sep 2021
ESP* Food Division Working Session Participation and Education	HQ energy manager, energy manager in each manufacturing and materials plants (total 3)	Korea Energy Corporation (in-person)	Nov 2021

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RESPONSE TO CLIMATE CHANGE

Strengthening Greenhouse Gas Management

Reinforcing the responsibility for GHG emissions

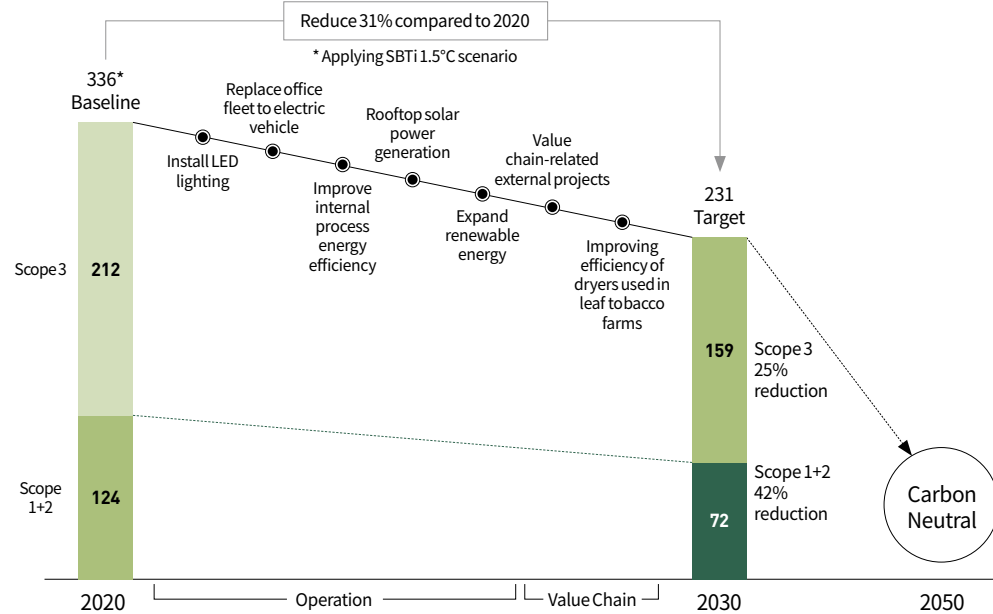
Establishment of Science-based GHG Reduction Target

KT&G has established mid-to-long term GHG reduction targets based on the SBT (Science Based Target) and aims to verify SBT within 2022.

KT&G has set a goal aligned with the Paris Agreement to keep the global temperature rise below 2°C compared to pre-industrial levels. In addition, the 2030 target has been raised from SBT's well-below 2°C and 2°C scenarios to 1.5°C and well-below 2°C compliant scenarios to strengthen our responsibility for greenhouse gas emissions in line with global standards. To this end, we are considering various alternatives, such as expanding the introduction of renewable energy and reducing greenhouse gas in the supply chain. We intend to realize carbon neutrality in 2050, which has expanded throughout the business value chain.

Advancing GHG Reduction Targets

(Unit: 1000tCO₂eq)



Discovering Major Mid-to-long-term Reduction Measures

To achieve the 2030 GHG reduction targets, KT&G has set reduction measures that require cooperation with internal and external stakeholders. We have identified practical agendas for improving energy efficiency and expanding renewable energies. We can promote more effective measures to reduce GHG emissions through the cost-benefit analysis while continuously discovering new reduction measures.

Mid-to-Long Term Reduction Measures

Expanding LED lights at plants	Replacing the lights to LED in major plants to reduce power consumption and energy costs
Replace office fleet to electric vehicle	Replacing all company vehicles with EVs by participating in the K-EV100 (the project of supporting Korean Zero Emission Vehicle) project and expanding the infrastructure for charging
Improve internal process energy efficiency	Improving steam boiler operation, applying an inverter control to air compressors, replacing with high-efficiency utility facilities, introducing FEMS (Factory Energy Management System), etc.
Rooftop solar power generation	Reducing power consumption by generating Solar power from the manufacturing plant's roof
Expand renewable energy	Facilitating the use of renewable energy using the K-RE100 support
Value chain-related external projects	Discovering items for reducing GHG related to CSR activities
Improving efficiency of dryers used in leaf tobacco farms	Reducing energy consumption by restoring and reusing the heat generated from drying leaf tobacco

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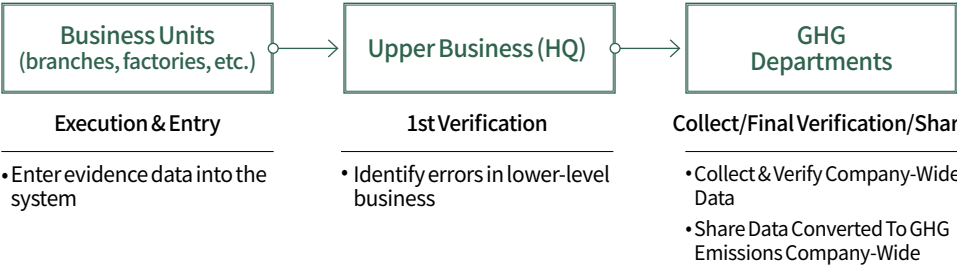


Adopting Internal Carbon Pricing

KT&G provides guidelines for analyzing the economic efficiency of investment related to active climate change responses and has adopted an Internal Carbon Pricing system to encourage decision-making processes that consider potential carbon price burdens. Internal Carbon Pricing is a system that adds carbon prices to expenditures when analyzing the economic efficiency of investment decisions. When analyzing the economic efficiency of investment, we ensure to include potential carbon prices along with reduced energy costs and internal carbon prices so that they are ultimately reflected in decision-making. The internal carbon price is set at 50,000 KRW/tCO₂, which is not only higher than the recent market price but also higher than the highest cumulative price of 40,800 KRW/tCO₂ as the domestic emissions trading system was introduced. The high internal carbon price represents our strong commitment to carbon emissions reductions. We continuously make efforts to reduce carbon emissions through the internal carbon pricing system. Through continuous monitoring, we will readjust the internal carbon price if the market price exceeds our price.

Company-Wide Energy Costs Settlement System

To achieve and practice the environmental visions of KT&G Green Impact, we are implementing an enterprise-wide energy costs settlement system and monitoring energy emissions and water consumption data across the entire worksites. Through the company’s energy settlement system, every month, all work sites enter energy water usage data based on the evidence documents such as charge bills into the computer system, and the collecting agency identifies the errors in advance every month. The collected energy usage is immediately converted to greenhouse gas emissions, which are posted and shared within the company. Each work site can monitor the progress of reduction efforts by checking the amount of GHG emissions. The department in charge of reducing emissions can identify the progress compared to the company targets, and even the progress for small units is available to be posted. Also, we analyze the cause of emissions change to detect abnormal activities and immediately respond to them. In the future, we plan to further upgrade the management system by expanding the management areas to include overseas plants.



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Status of GHG Emissions in the Value Chain

KT&G is trying to analyze greenhouse gas emissions from all value chains objectively and include them in the reduction target. As a result of inventory construction, including Scope 3, we found that upstream and downstream emissions accounted for about 63% of the total.

The WHO criticizes the tobacco industry for its increasing environmental impacts. Especially the WHO points out issues with forests, soil, and water shortages as well as the GHG emissions in all stages of materials cultivation, production, distribution, consumption, and discharge. Remarkably, the wood used for cultivating tobacco lands and drying tobacco leaves is reported to contribute 20% to increasing GHG emissions. KT&G is cooperating with leaf tobacco farms to encourage utilizing eco-friendly fertilizers and LNG when drying tobacco leaves, promoting a low-carbon environment for manufacturing. We will continue to make efforts to reduce greenhouse gas emissions by expanding the use of renewable energy.

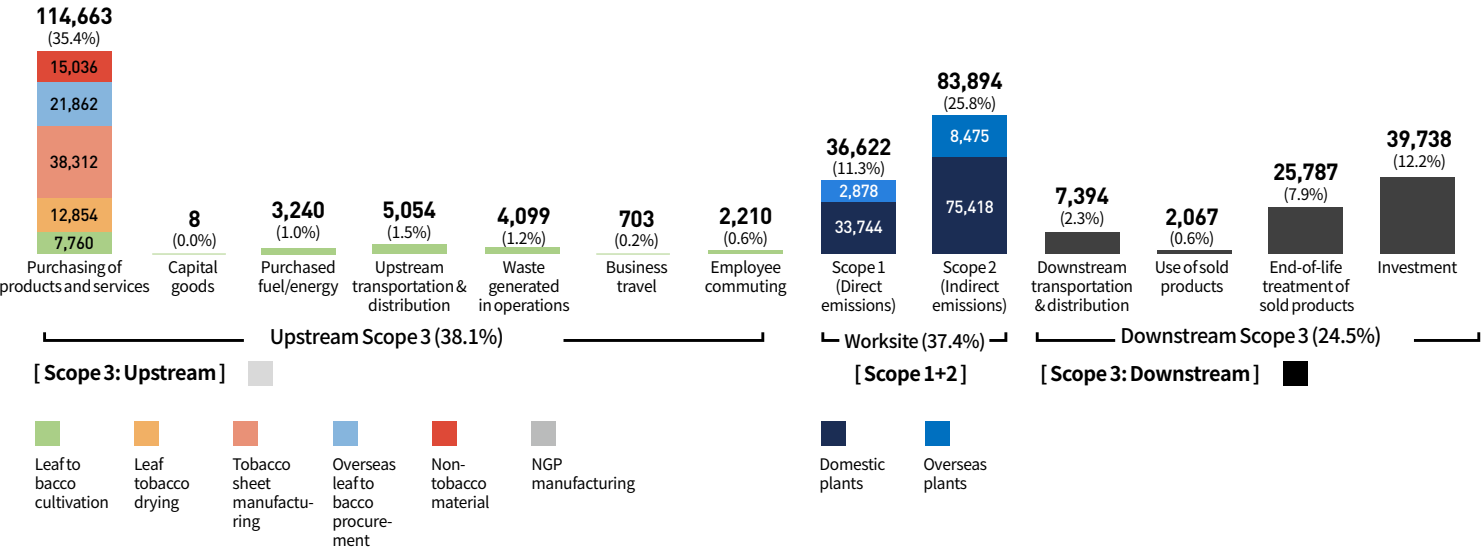
Advanced Management of GHG Emissions

Under Article 8 of the Operation Guidelines about Managing Greenhouse Gas Energy Targets, KT&G was chosen as a business for regulations control in 2013. Since then, we have been assigned GHG emissions targets. Furthermore, since 2014, we have been subject to the allocation of emission permits under Article 8 of the Enforcement Decree of the Act on the Allocation and Trading of Greenhouse Gas Emission Permits. Under Article 44* of the Framework Act on Carbon Neutral/Green Growth , and the government guidelines, we have been reporting and transparently disclosing our GHG emissions and energy consumption with stakeholders after third-party verification.

In 2021, we established GHG inventory, including Scope 3, for the first time, including GHG emissions from upstream, downstream, and the entire business areas. It indicates that KT&G is ultimately taking off the long journey of carbon neutrality. Also, to improve the credibility of GHG inventory and advance the GHG emissions management system, we are actively conducting third-party verification for overseas plants and Scope 3 and securing suitability. Furthermore, KT&G will make efforts to reduce GHG emissions and environmental impacts by meeting government guidelines and global standards in understanding the current status of greenhouse gas emissions throughout the value chain and establishing goals and implementation measures.

* “The Framework Act on Low-carbon Green Growth” was abolished on March 25, 2022, and “The Framework Act on Carbon Neutral/Green Growth for Climate Crisis Response”(The Framework Act on Carbon Neutral) took effect on the same day. Article 44 of “The Framework Act on Low-carbon Green Growth” is Article 27, Paragraph 3 of “The Framework Act on Carbon Neutral”. KT&G reports greenhouse gas emissions and energy use to the government after being verified by an external verification body.

GHG Emissions Assurance Statement
(Overseas worksite, Scope 3)



Our Performance	GHG Emissions Reduction
Scope 1 : 39,284 ⇨ 36,622	6.8% reduced
Scope 2 : 84,623 ⇨ 83,894	0.8% reduced
Scope 3 : 212,288 ⇨ 204,962	3.5% reduced

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Climate Change Scenario Analysis

Climate change scenario analysis allows the company to accurately understand the impact of climate change in uncertain future situations and increase resilience to respond better to each scenario. KT&G establishes strategic response plans through the analysis and strengthens the management system about risks and opportunities.

KT&G Climate Change Scenario

KT&G’s Climate Change Scenario meets the TCFD recommendations and includes physical and transition scenarios to evaluate risks, opportunities, and our resilience in various climate conditions. The Climate Change Scenario models the company’s long perspective of 2030 and super long perspectives of 2050 and has referred to the open scenario models published by the IEA(International Energy Agency) and IPCC(Intergovernmental Panel on Climate Change) for analysis.

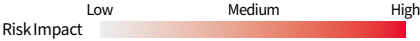
1 1.5°C Global Warming Scenario		2 2.0°C Global Warming Scenario	
Content	Immediate transition to carbon neutral economy, the global temperature rise maintains below 2 °C according to the Paris Agreement with global actions.	Currently no measures above the level disclosed are implemented in each country. Therefore, at least 2.6°C temperature increase is applied.	
Main Assumption	All countries around the world cooperate for carbon neutrality with various measures and major steps.	While there is less transition risks due to inactive transition policy measures, there are more frequent and extreme physical risks due to climate change.	
Temperature Rise Compared to Pre-Industrial Levels	1.5°C~2.0°C increase compared to pre-industrial levels	More than 2.6°C increase compared to pre-industrial levels	
Risk Tendency	<div>More Transition Risks</div> <div>More Physical Risks</div>		
Climate Change Scenario Applied	Transition Risk Scenario Model IEA Net Zero Emissions by 2050 Scenario (NZE)	Transition Risk Scenario Model IEA Stated Policies Scenario (STEPS)	
	Physical Risk Scenario Model IPCC WG2 AR5 CMIP5 mean model - RCP 2.6	Physical Risk Scenario Model IPCC WG2 AR5 CMIP5 mean model - RCP 4.5	



Climate Change Risk Identification Results

Types of Risk		Scenario	Plan Period			
			2025	2027	2030	2050
Transition Risk	Regulation	Carbon Pricing	1			
			2			
		Reinforced mandate to report GHG emissions	1			
			2			
		Obligations and regulations for existing products and services	1			
			2			
	Technology	Rise of low-carbon alternatives to existing products and services	1			
			2			
		Low-carbon technology transition	1			
			2			
	Market	Consumer behavior changes	1			
			2			
Physical Risk	Acute Risk	Typhoon, hurricane	1			
			2			
		Heavy rain, flood	1			
			2			
		Wildfire	1			
			2			
	Gradual	Rainfall change	1			
			2			
		Temperature change	1			
			2			
		Water shortage	1			
			2			

- 1 1.5°C Global Warming Scenario
- 2 2.0°C Global Warming Scenario



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Climate Change Risk Management

Transition Risk

KT&G set assumptions about the IEA’s proposed policies, carbon prices, and energy mix as main variables and analyzed climate scenarios to evaluate transition risks induced by climate change. With the transition to a low-carbon economy, it becomes more likely to experience higher carbon prices, new regulations about GHG emissions, and risks in the market and reputation. With higher transition risks, such risks are more likely to occur in the 1.5°C scenario. Technology and litigation-related risks have low importance as they have limited and potential risks in both scenarios. However, continued monitoring is essential to understand the related trend and the status of the risks. Therefore, KT&G has adopted an internal carbon pricing system to reduce risk effects and prevent risks against the future scenario of carbon regulations and higher carbon prices. Also, we have set mid-to-long term targets and investments for GHG emission reductions to respond to potential risks.

Physical Risk

Physical risks from climate change can result in asset losses such as production plants and various infrastructures and pose negative impacts on the company’s productivity and threats at the procurement step such as raw material prices and the supply chain. KT&G has identified acute changes, including typhoons, hurricanes, heavy rain, and wildfires, gradual risks such as rainfall and temperature changes, and sea level rise to evaluate physical risks. Unlike transition risks, physical risks pose higher risks in the 2.0°C Above Scenario, and the point of increased risks occurs earlier than the 1.5°C Scenario. Also, the impact of physical risks in the 1.5°C Scenario is small but severe enough to have an effect. Accordingly, KT&G, at each worksite, has emergency response action plans, including disaster recovery for severe disasters such as typhoons and floods. In addition, each worksite has its risk evaluation to identify hazardous risks. Also, all worksites have disaster recovery manuals for each situation for rapid recovery from disasters and following damages. Also, we run our physical risk evaluations for local and overseas worksites to respond to long-term physical environmental changes. And we also have activities to establish measures for adequate water consumption and water risk reductions at the worksite.

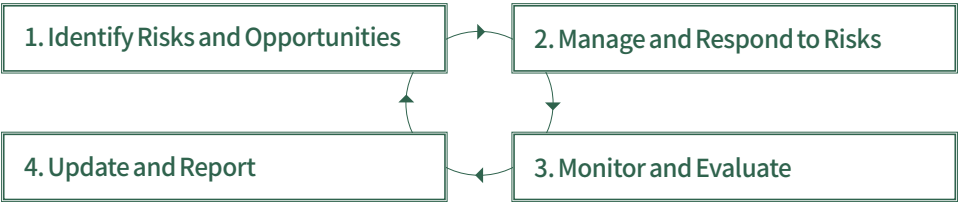
Climate Change Opportunity Management

While climate change poses risk factors across the overall business operation, it also provides factors for strategic opportunities. Such opportunities arise in the transition to a low-carbon economy, which has more effect in the 1.5°C Scenario. With consumers’ increased interest in eco-friendly products, KT&G is actively developing eco-friendly materials and technologies through the eco-friendly R&D organization and is strengthening the eco-friendliness of products across the entire value chain through the expanded application of recyclable materials and green purchasing activities.

Risk & Opportunity Management Process

KT&G has established a preemptive process of climate change risk management to respond to climate change. In addition, we are managing risks related to climate change by integrating them into the company-wide risk management system. Through this, we identify, evaluate, and mitigate climate change risks, minimizing the potential risks.

Climate Change Risk & Opportunity Management Process



1) Identify Risks and Opportunities

Through the risk identification system that meets the TCFD recommendations, KT&G analyzes possibilities of transition and physical risks and evaluates the risks’ short, mid, and long-term effects. Then, depending on the level of likelihood and impacts, potential climate change risks and opportunities are identified by evaluating the severity level based on quantified standards.

2) Manage and Respond to Risks

Identified risks have different likelihoods and effects. Therefore, we set response directions by each risk type for management. Risk response directions are determined based on the evaluated risks’ acceptance, avoidance, and reduction. And response directions and connected detailed action plans help to reduce risk effects.

3) Monitor and Evaluate

The process of response activities is monitored to ensure the level of performance. And based on the performance results, progress against targets and complementary measures are derived.

4) Update and Report

We refer to research data related to climate change, monitoring of climate, environment, and energy policy directions, response activities in the same industry, and opinions of field departments to update the management list and materiality assessment of climate change risks and opportunities. Then it is reported to the Sustainability Committee.

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GHG Emissions Reduction Activities

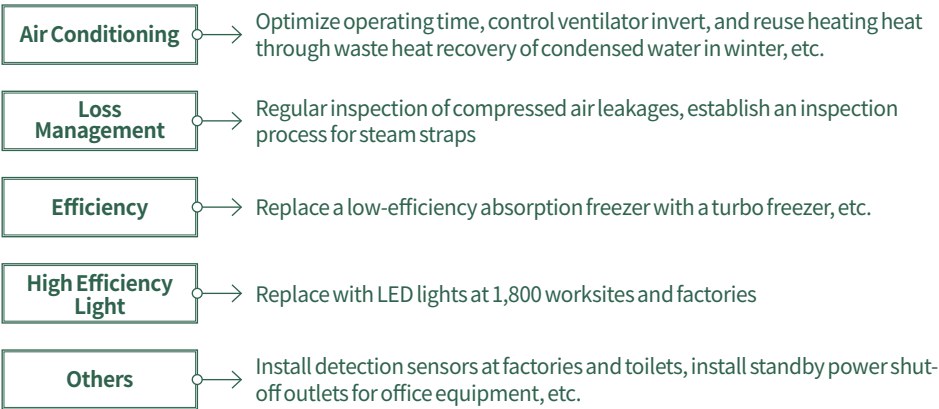
Rationalizing Energy Uses at Workplace

KT&G is actively promoting ways to reduce unnecessary energy consumption while making inevitable energy consumption more efficient. To that aim, we discovered and improved energy losses during the manufacturing process and optimized the manufacturing process to standardize the daily management process. We optimized operation hours by reducing the AC’s pre-heating time and avoiding driving during non-operation hours. Also, we ensured that no facility was in operation during the waiting time. We also minimized unnecessary energy consumption by regularly inspecting pressed air leakages or steam strap failure. In addition, we shared our optimal solutions found while rationalizing energy consumption to be widely implemented across worksites.

We reviewed energy efficiency when replacing old utility equipment and made rationalizing energy consumption mandatory. As part of this, we replaced the absorption freezer in the Gwangju plant with a high-efficiency turbo freezer in 2021. We will continue to replace old equipment with high-efficiency ones.

The fluorescent lights and halogen lamps at plants are replaced with LED lights. In 2021, we replaced lights at 1,800 worksites. A total of 12,500 worksites have had their lights replaced since 2018. In 2021, 58 cases of rationalizing energy consumption in all work sites resulted in expected GHG reductions of about 2,400tCO2 per year. As a result, in 2021, the GHG emissions in domestic worksites were reduced by 4,697tCO2 and 4.1% compared to the 2020 level.

Loss Management Process Operation and Economize Facility Infrastructure



Adoption of Factory Energy Management System (FEMS)

Starting with Sintanjin Plant in 2022, we are trying to install the energy management system at all plants. We will install measuring infrastructure to monitor each piece of equipment’s energy consumption and efficiency in real-time, allowing more sophisticated analysis of energy consumption. And through the system analysis of consumption patterns, we will minimize unnecessary energy usage. Furthermore, we will assign energy targets for each plant division by linking the sophisticated measuring infrastructure and manufacturing data. We will also establish and operate an energy management system that encourages all members to participate.

Continuous Expansion of Renewable Energy

For GHG reductions, KT&G is setting mid-to-long term targets and making efforts to transition to renewables. As part of the efforts, KT&G is trying to install solar power generation facilities on the rooftop of the factories. Starting with Sintanjin and Gwangju Plants in 2022, we have a plan to install solar power plants of 18 MWp in three years. Using the generated solar power to operate factories, we expect to reduce more than 10,000tCO₂ of GHGs annually. Also, we will review adopting other types of renewable energies for more eco-friendly energy consumption.

Supply Chain GHG Management Reinforcement

KT&G has established a support and cooperation system to strengthen environmental management for major partners to achieve the 2030 reduction goals, realize carbon neutrality, and enhance the sustainability of the supply chain. KT&G is strengthening support for greenhouse gas reduction activities considering partners’ sustainability. Therefore, we are conducting various plans such as establishing a system for ISO 14001 and 50001 certification, calculating GHG emissions to reduce carbon footprint, establishing a roadmap to implement them, and providing guidelines through sustainable product policies. Also, we are supporting investments in facilities for reduction efforts and plan to encourage partners to understand and practice the importance of reduction efforts through sharing best practices at workshops and training programs. At the same time, we plan to identify new improvement measures such as developing eco-friendly packaging. We will share the actions with partners and continue to help them establish a sustainable environmental ecosystem.

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WATER RESOURCE MANAGEMENT

Water Management Targets and System

A Goal to Reduce Water Consumption by 2030

Climate change has caused severe polarization of water resources worldwide, with severe droughts continuing in certain areas. KT&G has established a mid-to-long term goal to efficiently use water, an essential resource due to the nature of its business, and to reduce the amount of water used inside domestic and overseas business sites by 20% by 2030 compared to 2020. We will continue to focus on strengthening and spreading water management capabilities at the level of global leading companies through water risk management and the application of water recycling technologies.

Water Management Division and R&R

The Energy Environment Department under the Manufacturing HQ is in charge of managing water resources at local and overseas work sites. The Energy Environment Department is standardizing factory management processes to reduce water consumption and is establishing mid-to-long term strategies such as adopting optimal water reuse facilities by each plant. Each plant is discovering and improving measures to reduce water consumption at utility facilities and during manufacturing. The Energy Environment Department, through an organic cooperation system, shares improvement activities of each plant with all plants so that the improvements can be widely achieved across the entire company.

Strengthening Water Resource Management Capabilities

KT&G collects monthly water usage for each worksite by linking it with the company-wide energy cost settlement system. After the collected data is verified for error based on the evidence documents (charge bills), they are published on company bulletin boards.

Through a comparative analysis among plants, KT&G discovered a discrepancy in water consumption between boilers and cooling towers depending on the water quality. To prevent excessive water waste and corrosion of facilities due to low-quality water, we established a management process that includes regular water quality control. Through this process, we will be able to minimize water waste.

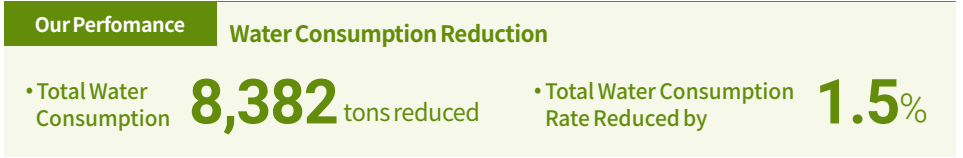
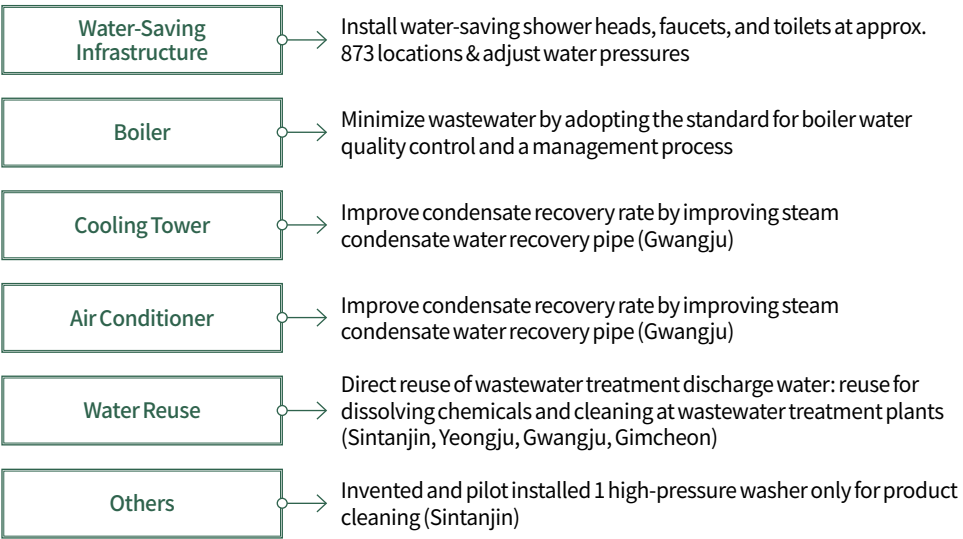
Also, hot water is being used excessively to remove adhesive residues from facility parts at cleaning plants. To improve this, we invented a high-pressure washer only for facility parts. The washer is now in testing with pilot installations. The high-pressure washer uses high pressures to wash residues, reducing water consumption. Also, the water used during the process can be filtered and reused dozens of times. Therefore, high-pressure washers are expected to bring significant reductions in water consumption when widely adopted.

Additionally, we are reviewing various measures to reuse used water by adopting a water reuse facility. As part of the effort, in 2021, we adopted a system that uses the discharged water from the water treatment plant for cleaning. The system enabled to reuse of about 430 tons of water, and water reuse is expected to exceed about 4,000 tons per year. It was possible because we continued to manage discharged water at water treatment plants. In 2022, we plan to purify the discharged water once more for various purposes and increase water reuse systems.

Infrastructure Improvements to Save Water

While the amount of water used in the manufacturing process, such as boilers and cooling towers, is high, the personal water consumption of employees is relatively high according to the analysis of water consumption by location. Therefore, we installed water-saving devices such as faucets and shower heads to save water at utility facilities. At the same time, we established water-saving infrastructure to supply only the necessary amount of water by adjusting water supply pressures. As a result, in 2021, we reduced water consumption by 8.3% year on year.

Reducing Water Consumption & Expanding Water Reusage by Improving Utilities, etc.



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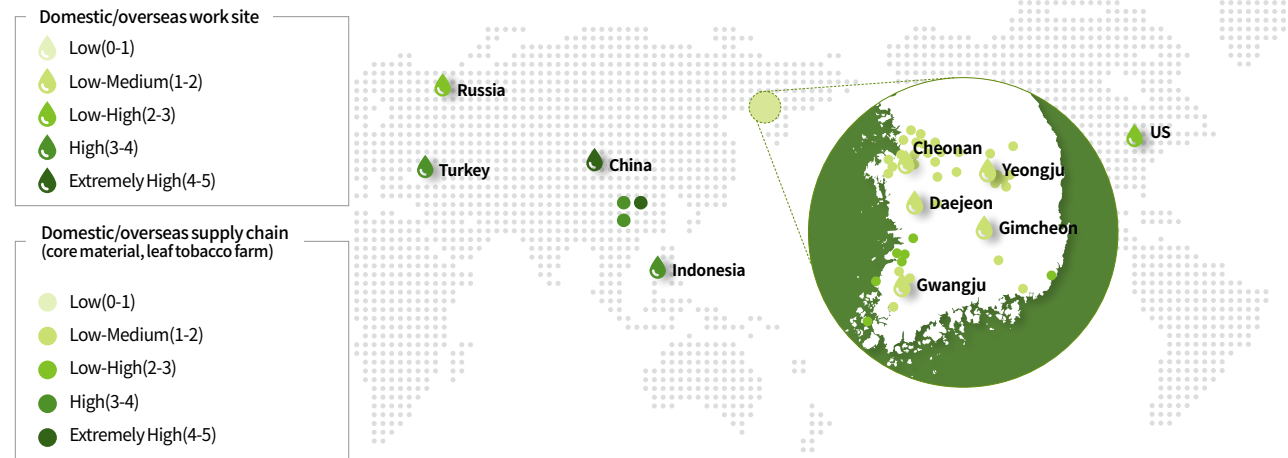
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Water Risk Management at Each Site

Water Risk Analysis Result & Response Measures

KT&G uses World Resources Institute's Water Risk Atlas tool to identify water risks. From 2021, we expanded our risk analysis area to include domestic and overseas work sites, suppliers such as local leaf tobacco farms(33 sites), and core material suppliers(16 companies). As a result, we conducted a water risk analysis on 63 sites, including 33 domestic/overseas sites.

Water Risk Analysis Results by Domestic/Overseas Sites & Supply Chain



Water Stress Regions

Based on the water stress results, we defined a “water stress region” as a region with a high score of 3 points when applying the overall water risk measure and the weight of the agricultural sector. According to this measure, 2 overseas work sites, Indonesia and Turkey, are water stress regions. Except for work sites in Vietnam, some domestic leaf tobacco farms and core material suppliers have a medium to high score of 2 to 3 points.

K&G plans to implement action plans based on the water risk analysis and water consumption to minimize risks and reduce environmental load at domestic and overseas worksites and supply chains.

Water Stress Reduction Activities

We are promoting a stable supply and demand of leaf tobacco at work sites with high water risk and leaf tobacco cultivation areas by using water reduction technologies and expanding funding support. In addition, we are trying to create an environment where all work sites and partners can use water more efficiently while building a process to manage and reduce risks against climate change damages such as drought and floods.

For the mid-to-long term, we are reviewing a water return project that returns the amount of water used by KT&G to local communities based on the business value chain to offset the impact of production and water intake.

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WASTE MANAGEMENT

Waste Recycling Targets

The manufacturing process inevitably results in waste disposal in landfills or incineration if not recycled. Therefore, it poses enormous burdens on the environment. To reduce the environmental impacts, we are promoting a circular economy by recycling and reducing the use of new resources. With the aim of a 90% waste recycling rate, KT&G will strictly separate and dispose of waste into items to make recycling easier. We continue to find new and the most suitable recycling methods besides the traditional recycling method.

Waste Management System

In 2021, KT&G's waste disposal decreased by 1,127 tons or 9.8% and the recycling rate increased by 14.4%, from 57.1% to 71.5% year on year. Meanwhile, the amount of waste that cannot be recycled decreased by 40%, from 4,933 tons in 2020 to 2,959 tons in 2021. So far landfill waste, we are trying to lower it to 0 or 0.2% of the total waste.

By monthly collecting each plant's waste generation and recycling rate, KT&G analyzes the changes and tries to achieve its mid-to-long term goals. Also, for the waste that is difficult to recycle due to its unique usages, we are closely cooperating with HQ's general management department to find standard disposal methods and companies to accelerate the recycling rate.

Also, we operate a process that manages the treatment of waste disposal. We also conduct on-site due diligence to check that all waste companies treat the commissioned waste properly. At the same time, we only work with new companies that pass the standards with due diligence. For existing companies, we have an internal process that conducts yearly due diligence to determine the continuity of businesses and require improvements for any insufficiencies.

Our Performance

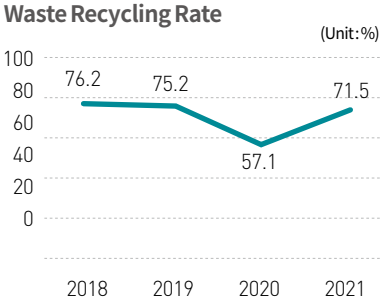
Reduce Amount of Waste and Increase Recycling Rates
(compare to 2020)

Total Amount of Waste

1,127 tons reduced

Total Waste Recycling Rates Increased by

14.4%p



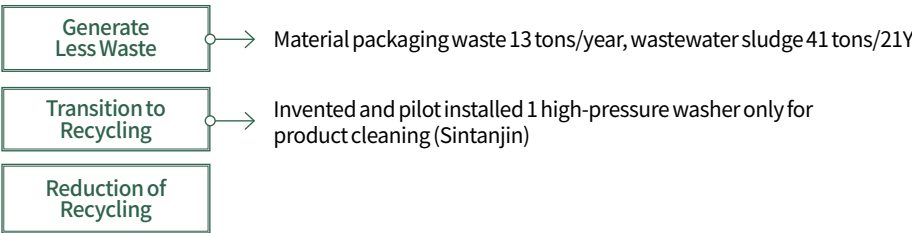
Reduce Industrial Waste Generation and Expand Recycling

KT&G is identifying and adopting improvement measures to reduce 12 tons of waste disposal annually by analyzing the packaging status of each material, cooperating with suppliers to remove unnecessary packing, and reusing collected items. Also, the waste disposal analysis allowed us to identify that Yeongju Plant produces more wastewater sludge than other plants. Therefore, in 2021, we improved the dehydrator in the Yeongju plant and reduced wastewater sludge by 41 tons compared to the previous year. In the future, we will continue to reduce waste disposal by reviewing ways to reduce manufacturing byproducts.

We are aware that expanding recycling is only possible when recyclable waste is separated into items. For this, we recategorized the recycling bins at local sites and added more recycling bins to encourage more waste separation and disposal. We are also looking for appropriate measures to dispose of waste that was not previously recycled. Therefore, we increased the recycling rate by 14.4%p compared to the previous year.

With decreased waste disposal and increased recycling, we reduced GHG emissions caused by waste by 49.4% in 2021, compared to the previous year.

Efforts to Reduce Waste Generation and Expand Recycling



Overseas Workplace Waste Management Status

The overseas worksites comply with the local authorities and waste regulations. The domestic general department collects and monitors the total waste disposal and recycling every month. In particular, the Turkish plant earned the Zero-Waste certification organized by the Turkish Ministry of Environment in October 2021. In the future, we will minimize waste and expand recycling at all work sites, including local plants.



Turkish plant Zero Waste certification

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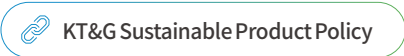
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MITIGATION OF PRODUCTS’ ENVIRONMENTAL IMPACTS

Establish Sustainable Product Policy

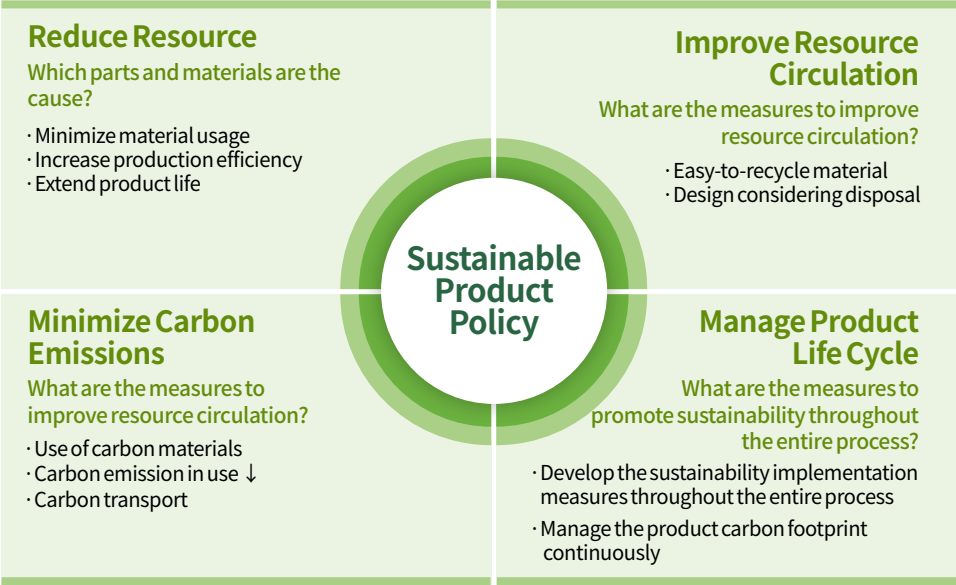


Countries worldwide are ramping up their efforts to reduce the environmental impacts of products, such as plastic waste regulations. KT&G believes that we must reduce the environmental impacts of our products in every step of the product’s life cycle, from product development to planning to waste disposal. Therefore, we intend to use our capabilities to conserve resources and recycle used actively and discarded products to develop more innovative and environmentally friendly products.

Having considered the environmental burdens from the perspective of the business value chain, KT&G established a framework for managing the product’s eco-friendliness in three significant areas. It includes applying eco-friendly materials, minimizing carbon footprint, and increasing the responsibilities of producers about recycling (recycling NGP). Therefore, we aim to assign responsibilities and management roles for environmental impacts at each stage of the value chain and lay the groundwork for eco-friendliness through cooperation between the company’s business departments, such as manufacturing, raw materials, and R&D for sustainable product design.

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

4 Major Directions



Establishing Product Eco-friendliness Management Mid-to-Long Term Targets

Eco-friendly Material Applications and Goals

KT&G has established mid-to-long term goals to manage the eco-friendliness of products by improving product packaging and recycling devices. We are improving resource circulation by defining recycled, recyclable, and renewable materials according to the sustainable product policy, reducing plastics, and promoting recycling-easy designs. By 2025, we will use materials that are easy to recycle from the consumer perspective, encouraging consumer participation and expanding our commitments to eco-friendly management. In addition to simplifying packaging materials for easy recycling in the packaging disposal stage, packaging materials are applied first, depending on whether they can be recycled, such as paper, polypropylene (PP), or polyethylene (PE) single-material film. However, suppose it is processed in a non-recyclable form due to bonding with other materials (such as adhesives). In that case, we will continue to make efforts to achieve mid-to-long term goals by converting the materials into other materials or finding eco-friendly recyclable alternatives. In particular, products currently using aluminum inner liners will be converted to paper inner liners 100% by 2025, contributing to improved recycling in the product disposal stage.

Minimizing Carbon Footprint

KT&G systematically manages products’ carbon footprints by identifying GHG emissions by the business value chain step and conducting the primary product life cycle assessment. We plan to establish a decision-making process to reduce carbon footprint and environmental impact from the product planning stage, such as low carbon material use, low carbon design review, and expansion of renewable energy. Also, we continue to seek external recognition for efforts that contributed to environmental impacts, such as third-party verification.

Activities to Improve Product Eco-friendliness

Improvement of Product Packaging Materials

To improve eco-friendly productivity, we are promoting unnecessary packaging, expansion of the use of renewable materials, and reduction of resource usage, and we will continue to make efforts to minimize environmental impacts.



- Remove the paper (packaging paper) in the NGP stick product bastion packaging
- Replace the inner aluminum laminated material with paper in the NGP stick product pack
- Review the transition from film paper box tape to paper tape
- Minimize the gift box packaging in the NGP device

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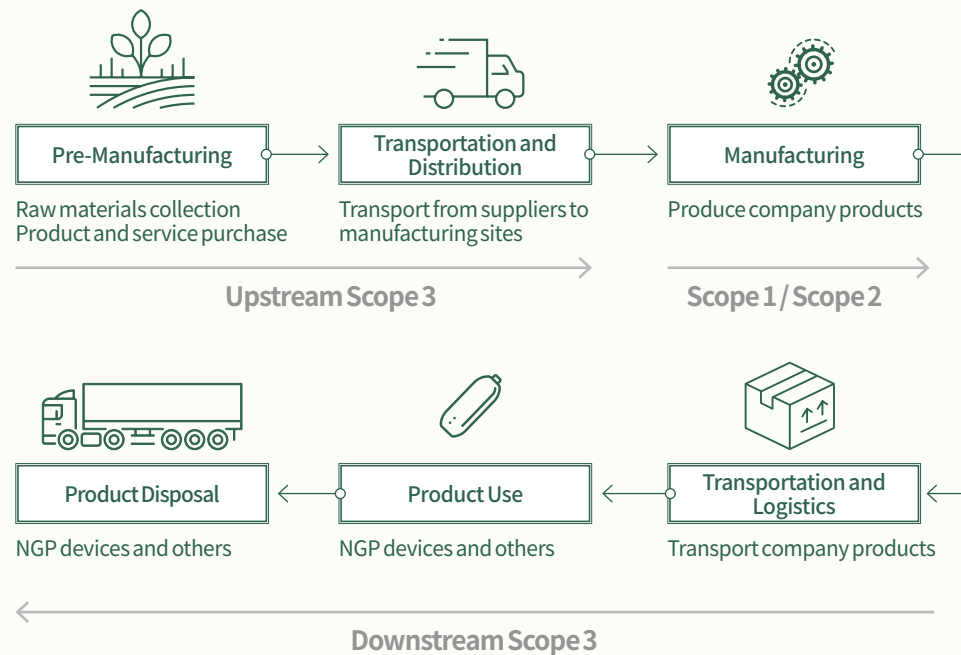
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LCA(Life Cycle Assessment)

LCA (Life Cycle Assessment) is a method to quantify resource consumption and discharge and to comprehensively evaluate potential environmental impacts in the life cycle of products and services. Aware of the environmental responsibilities, KT&G is conducting the LCA based on the global standards ISO 14040/14044* to produce responsible products and services.

Set System Boundary

Life cycle from raw materials collection to product disposal

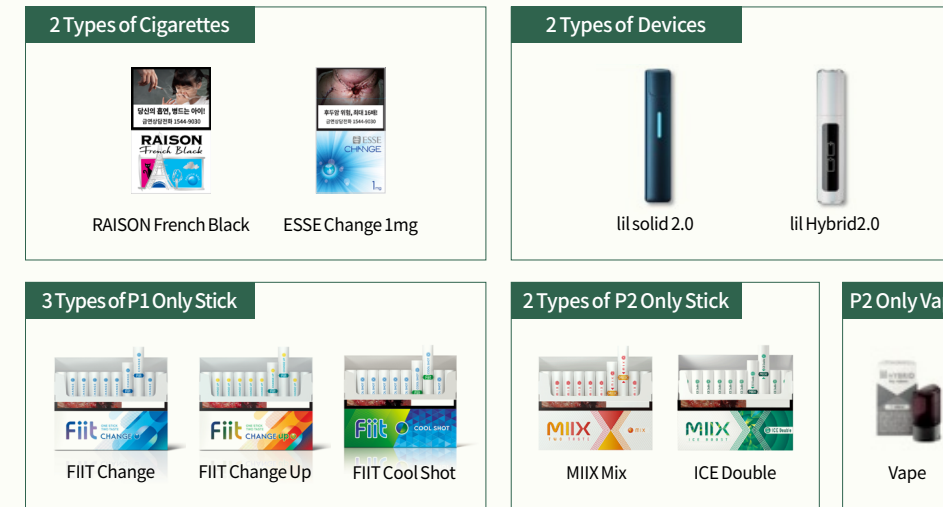


KT&G has completed LCA in significant products in 2022. Based on the LCA results, we will continue to examine various eco-friendly design measures that can reduce products' environmental impacts. Also, through the LCA, we will objectively analyze the effects of the application of eco-friendly materials and improved packaging, and expansion of renewables. Furthermore, based on the results, we will establish a system to examine the eco-friendliness of products from the product planning and developing steps. Moreover, we will actively communicate with internal and external stakeholders about KT&G's eco-friendly product standards and implementation progress to make sustainable products.

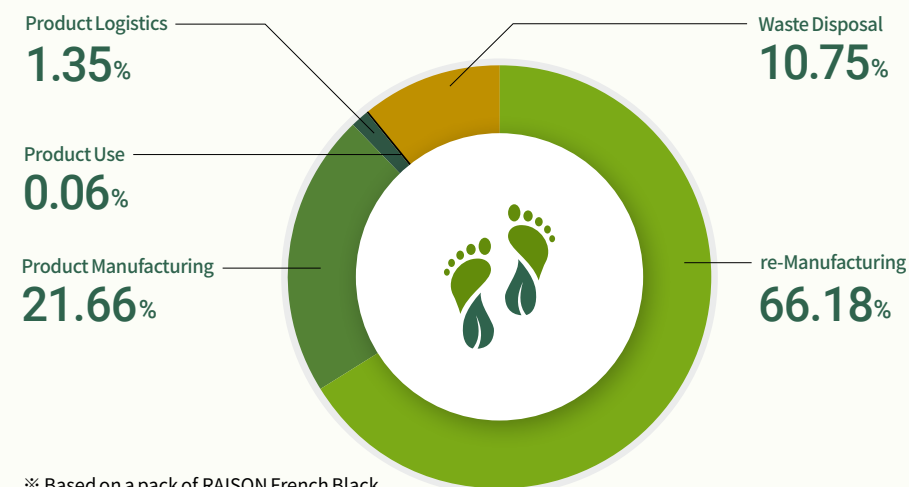
*ISO 14040/14044 (LCA) : define assessment purposes and scope > collect the subject system's input and output data > assess potential environmental impacts > result diagnostics (in 4 steps)

KT&G LCA Analysis Status

Products Subject to LCA



Carbon Footprint Contribution by Step in the Product Life Cycle



※ Based on a pack of RAISON French Black

As a result of LCA analysis, it was confirmed that the carbon footprint of KT&G products accounted for more than 80% of the raw material procurement stage and product manufacturing stage before product manufacturing. We plan to establish and implement product-level environmental performance management in connection with reducing GHG emissions scope 3, expanding renewable energy at workplaces, converting eco-friendly materials, etc.

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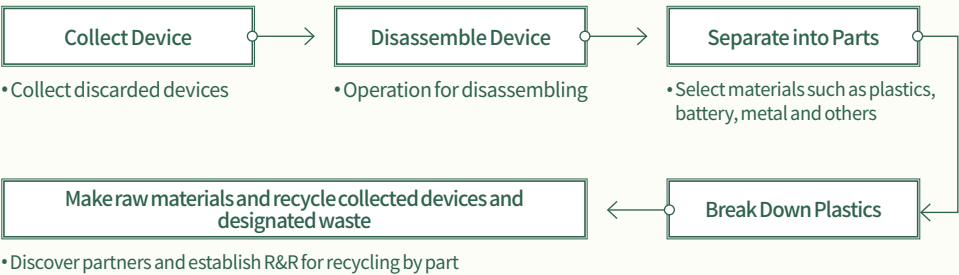
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Establish Electronic Tobacco Waste Device Recycling System

It is a project to implement practical material recycling after separating collected waste devices by parts. Through this, we will contribute to the improvement of resource circulation, and in the mid-to-long term, we will strive to upgrade the product circulation system, such as the product re-injection plan. In the future, KT&G plans to gradually expand the volume of material recycling by conducting a campaign to participate in the voluntary collection of waste devices by consumers. In addition, we are actively considering establishing a stable recycling supply chain to achieve a material recycling rate (weight-based) per device of 40% by 2022 and 80% by 2025.

Device Material Recycling Process



Terracycle



“Eliminating the Idea of Waste”



Resource Circulation MOU

Under the vision of “Eliminating the idea of Waste,” Terracycle strives to prevent pollution from waste incineration and landfills by carrying out various activities such as upcycling product production and recycling and reusing campaigns. Primarily, Terracycle collects hard-to-recycle waste and makes recycling possible for all products. In doing so, we cooperate with companies or the government to develop product recycling and reuse solutions and research to expand a circular economy.

We strive to actively engage with consumers by establishing Loop, an on-offline zero waste platform, and the Terracycle Global Foundation. We also run campaigns and projects with domestic companies, such as collecting empty bottles to encourage recycling and environmental activities.

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Strengthened R&D Capacity for Eco-friendly Products

As the need to secure a competitive foundation for sustainability in relation to corporate social responsibility is emerging, the need for developing eco-friendly products across the industry, including microplastic issues, is continuously increasing. Accordingly, KT&G intends to create a more strategic response plan by establishing a dedicated eco-friendly research organization within the R&D headquarters. We focus on implementing nature-friendly products while securing infrastructure technologies that can respond to environmental issues, such as developing eco-friendly new materials and replacing technologies for existing materials. In the short term, we plan to replace the cigarette packaging material. In the mid-to-long term, we hope to minimize environmental impacts across the life cycle of products. We plan to focus on expanding the eco-friendliness of KT&G products by producing core technologies early on through internal and external cooperation.

Develop and Apply Eco-friendly Materials

We are actively researching eco-friendly materials such as plastic alternative materials and applying eco-friendly certified materials to minimize environmental impacts.



- Develop biodegradable films to substitute OPP films
- Develop eco-friendly materials for filters
- Promote the applications of paper filters
- Use FSC-certified pup for paper materials

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PROTECTION OF BIODIVERSITY

Biodiversity and Forest Preservation Policy

KT&G is aware of the environmental responsibilities of companies. Primarily, we know that business operation depends on the ecosystem and impacts biodiversity changes when using natural resources, such as forests, land, and water. Therefore, we have declared a biodiversity protection policy to establish a sustainable relationship with the ecosystem.

Biodiversity Protection Policy aims to prevent and mitigate risks across the business. The policy is based on international agreements and guidelines, such as the Convention on Biological Diversity, IUCN, Guidelines for Applying Protected Area Management Categories, and the Convention on International Trade in Endangered Species of Wild Fauna and Flora. Based on the policy, KT&G hopes to promote biodiversity protection activities around the biodiversity preservation areas near the company, partners, and the work sites. To this end, we aim to establish risk management plans, including the identification of risk areas and high-risk species. Furthermore, through regular evaluation and monitoring systems, we will strive to protect biodiversity in the future.



We will achieve NNL¹⁾ and NPI²⁾ step by step across the value chain.

- 1)NNL (No Net Loss): stop the negative impacts of workplace activities on biodiversity of nearby major preservation areas
- 2)NPI (Net Positive Impact): Offset the negative impacts of workplace activities on biodiversity and create positive effects by additional preservation activities

Biodiversity Management Measures

Value Chain	Upstream : Leaf Tobacco Farms	Downstream : Marine Waste
Risk	• Increased risk of destructing cultivation land and ecosystem (soil, water resource, etc.) due to continued cultivation of leaf tobacco	• Increased marine waste and threats to destroy ecosystem due to dumping cigarette butts
Areas of Focus	• Developing biodiversity preservation programs and collaborative institutions	• Promote private-public cooperation projects with institutions like the Korea Marine Environment Management Corporation • Host a junk art exhibition about cleanup activities and reusing marine waste (2021.04~12)
Expected Benefits	• Maintaining the quality of leaf tobacco and building a cooperative structure for preserving ecosystem surrounding cultivation land	• Promote private-public joint projects about solving biodiversity issues in the tobacco industry

KT&G Biodiversity/Forest Preservation Policy



Domestic Plants

- Sintanjin Plant (71, Beotkkot-gil, Daedeok-gu, Daejeon)
- Gwangju Plant (300, Haseo-ro, Buk-gu, Gwangju)
- Yeongju Plant (179, Jeokseogongdan-ro, Yeongju-si, Gyeongsangbuk-do)
- Cheonan Plant (270, Bongjeong-ro, Seobuk-gu, Cheonan-si, Chungcheongnam-do)
- Gimcheon Plant (1192, Yeongnam-daero, Gimcheon-si, Gyeongsangbuk-do)

Indonesia Plant

- Jl Raya Purwosari 341, Pasuruan, Jawa Timur, Indonesia 67162

Russia Plant

- Estate 3, 2nd East Way, Dobrion Village, Borovsk District, Kaluga Region, Russia Federation 249020

Turkey Plant

- ibni Melek OSB Mah. Tosbi Yoi 4 Sok No.12 Tire/IZMIR, Turkey

In 2021, KT&G conducted an analysis of the status of IUCN red list by country where the plat is located. We will stop the negative impacts on biodiversity in business operation and create positive impacts through protection activities by 2050.

Country	IUCN Red List of Threatened Species	Number of Threatened Species	Total
Korea	Mammals, birds, reptiles, fish, insects, land plants, amphibians	14	14
Indonesia	Reptiles, fish and shellfish, mammals, fish, Fagales, Lacertidae	Vulnerable: 31, Endangered: 27, Critically Endangered: 7	65
Russia	Bivalvia, birds, insects	Vulnerable: 10, Endangered: 3, Critically Endangered: 1	14
Turkey	fish, fern, fish and shellfish	Vulnerable: 12, Endangered: 7, Critically Endangered: 2	21

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Biodiversity Preservation Activities

KT&G acknowledges the importance of biodiversity issues, one of the major global agendas, and is strengthening its response to risks of biodiversity loss. We understand the impact of business activities on biodiversity throughout the value chain, including the workplace, and strive to identify significant risks posed by the characteristics of the tobacco industry while seeking and promoting measures to tackle them.

KT&G's Domestic and Overseas Forestation Projects

To engage with the ESG management principles, KT&G employees have launched a local win-win project to reduce carbon emissions at local and overseas workplaces. We developed KRW 210 million worth of forest for the project with our employees' donations to the Sangsang Fund. In October 2021, KT&G promoted a carbon-neutral and win-win forestation project at the national Daegwallyeong Supgil to respond to the climate crisis and contribute to carbon neutrality. We cooperate with the project with Eastern Province Forest Service, Pyeongchang National Forest Service, Gangwon Business HQ of National Forestry Cooperation Federation and Treeplanet. When trees planted in the 1.5ha area of the forest grow into 30-year-old mature trees, we can create environmental values by purifying air by absorbing carbon dioxide and fine dust and producing oxygen. Also, we can create financial values by saving electricity bills through the forest's air purification effects and by saving temperature energy through the trees' temperature control capacity. We also expect to contribute to the achievements of 3* out of 17 UN SDGs. KT&G clearly understands the importance of forest preservation. Therefore, to preserve the forestry ecosystem and respond to climate risks home and abroad, we promoted a 'Mongolia Sangsang Forest' Project in September 2021. The 'Mongolia Sangsang Forest Development project contributes to sustainable development, international climate change response, and air pollution prevention by reducing yellow and fine dust in Mongolia. We purchased and planted 2,000 pine and fruit tree seedlings for the project in Mongol. And we conducted training for residents to continue the development of a sustainable forest. In the future, we will actively promote local and overseas activities to identify and respond to issues related to forest preservation.

Our Performance

Creating Environmental Values



9,248 kg

Carbon Dioxide
Absorption (per year)

47,872 g

Fine Dust absorption
(per year)

128,384 kg

Oxygen Production
(per year)

* Creating environmental values of the carbon-neutral and win-win Daegwallyeong forest development project

*no.3, Good Health and Well-Being no.13, Climate Action no.15, Life on Land

Campaigns to Increase the Public's Awareness on Marine Ecosystem Protection

While plastic waste is increasingly destroying the marine ecosystem worldwide, KT&G has been running projects related to marine biodiversity protection. For this, we planned a campaign to raise public awareness and funding based on the three-party agreement with the Korea Marine Environment Management Corporation and Our Sea of East Asia Network (OSEN). Based on the agreement, we proactively identify and respond to potential environmental risks, such as promoting beach and water purification activities, holding junk art exhibitions using collected waste, and raising social interest in marine waste issues.



Seashore Cleanup / May 2021 ~

- Investigate real conditions and clean up around the most severely polluted areas
 - Total 260 people including KT&G employees
 - Total 8 events on main environment-related days home and abroad
 - Collected approx. 7 tons of waste
- Areas of activities
 - Gyeongnam: Tongyeong Sarangdo, Yeonhwado, Sacheon Nokdo, Songcheon, Geoje Heungnam, Songdo
 - Busan: Yeongdo Cheonghak, Saha Molundae



Junk Art Exhibition / Sep - Oct 2021

- Supporting the exhibition of junk arts using marine waste
- Purpose: call attention to marine waste issues
- Participating artists: 10 (sculpture, installation, painting, etc.)
- Exhibition
 - About 1,500 people viewed
 - Busan SangSang Madang (Sep 2021)
 - Daechi Gallery (Oct 2021)



Underwater Cleanup / May - Nov 2021

- Investigate real conditions and clean up around the most severely polluted underwater areas
 - Total 6 events in collaboration with local skin scuba clubs
 - Filmed underwater activities to secure video footages of destroyed ecosystem
 - Collected approx. 100kg underwater waste
- Areas of activities
 - Marine reserve area in Busan: Hyeongjedo, Mokdo
 - Gyeongnam: Tongyeong Hongdo, Gukdo, Namhae-gun Sochido, Sejongdo

Our Performance

Creating Environmental Values



Approx.
100 kg

Amount of collected
underwater waste

Approx. 7 tons

Amount of collected
waste

10 Artists

Junk Art Exhibition
Participating Artists

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Environmental Management Vision System

Response to Climate Change

Water Resource Management

Waste Management

Mitigation of Products' Environmental Impacts

Protection of Biodiversity

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Building a Sustainable Business Ecosystem

Building a Sustainable Business Ecosystem

KT&G is working on expanding the human rights impact assessment scope and deriving and preemptively responding to potential human rights risks. Furthermore, based on this, we strive to create a culture that respects the human rights of executives and employees from the supply chain. In addition, we are promoting the establishment of STP, a platform developed under the leadership of global tobacco manufacturers for sustainable leaf tobacco farming. We will strive to fulfill social and environmental responsibilities such as guaranteeing working rights, stability management, and reducing greenhouse gases.

Contribution to leaf tobacco farms' social and environmental value creation
KRW **500.9** billion

(including the Tobacco Production Stabilizing Fund, accumulative)

The number of male childcare leave users was increased by
3.14 times

Social Contribution
KRW **160.3** billion

ISO 45001
(Occupational health and safety management system) Certification

Implementation of
ESG evaluation to material partners 100%
(account for over 95% of our total purchasing amount)

STP* Promotion
Establishment of STP operation plans and providing training to domestic farmers

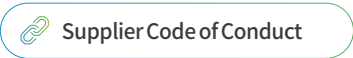
*STP: Sustainable Tobacco Program

SUSTAINABILITY IN THE SUPPLY CHAIN

Improving sustainability in the supply chain

Supplier Code of Conduct

KT&G has established a Supplier Code of Conduct to spread a culture of fulfilling social and environmental responsibilities and reducing related risks in the supply chain. The Supplier Code of Conduct, organically connected to KT&G, serves as a guideline to reflect on their social and environmental responsibility in the process of partner selection and comprehensive evaluation. It evaluates ESG management items and partners' ability to fulfill contracts and request improvement on insufficient matters, thereby gradually improving the supply chain's sustainability. KT&G signed a Supplier Code of Conduct with 76 NTM/NGP(Non-Tobacco Material/Next General Product) partners in January 2022. Moreover, we revised the code of conduct for partners to emphasize ESG management, corporate social and environmental responsibility, and mutual growth in 2022. We strengthened the regulations related to the latest ESG issues, such as defining partners' responsibility and role, protecting intellectual properties and information, etc.



Special Terms and Conditions for the ethical practice of partners

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

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

- ① We shall maintain business relationships with partners that comply with laws and regulations on ethics, human rights, labor, environmental safety, and occupational health.
- ② We shall comply with the Fair Trade Act, the Subcontracting Act, and the Win-Win Cooperation Act for fair procurement.
- ③ We shall comply with the practices presented by the Fair Trade Commission.

Supply chain status

Status of partners

KT&G manages a total of 55 critical manufacturing and service partners, who supply at least KRW 100 million and account for over 95% of our total purchasing amount.



Supply chain status

Manufacturing partner **41** partners Service partner **14** partners



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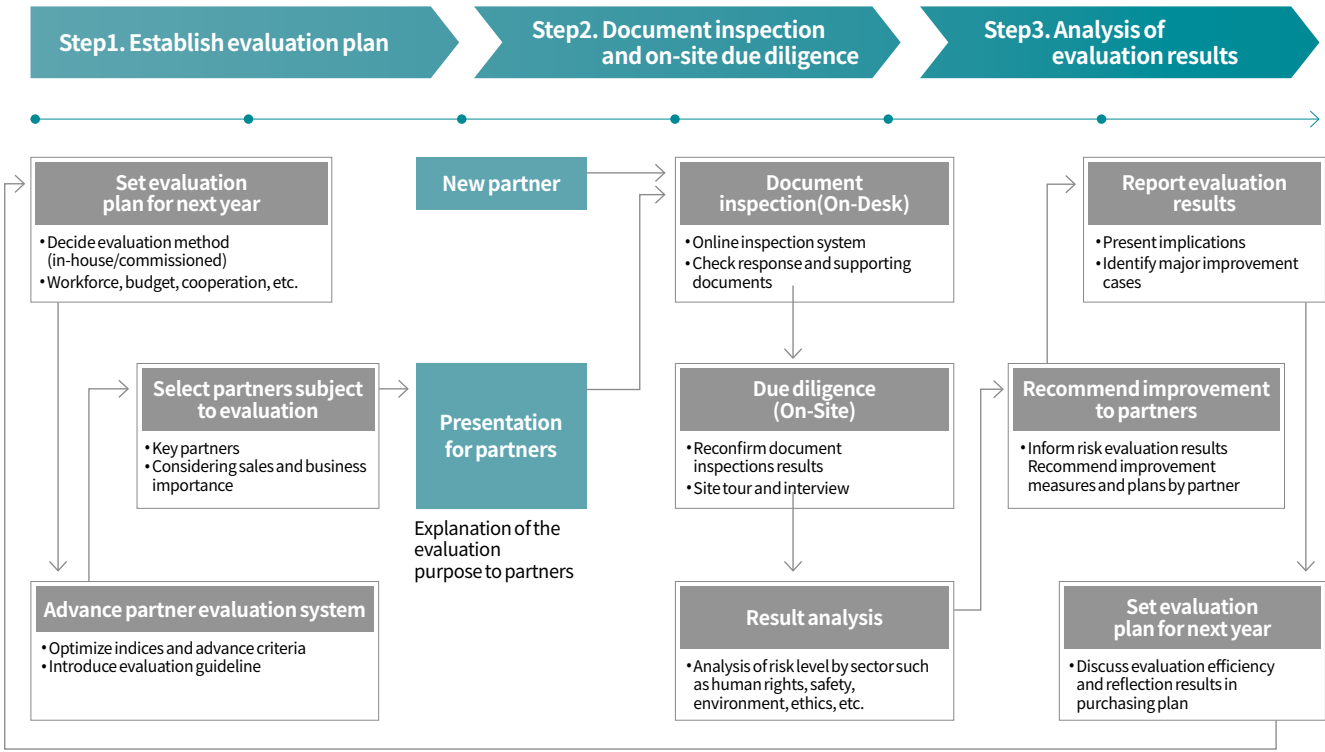
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Supply chain management system
Supply chain assessment process

KT&G has been making many efforts to enhance sustainability and minimize risks in the supply chain. ESG evaluation items are included in the SQ (Supply Quality) assessment and comprehensive evaluation to strengthen the competitiveness of the overall supply chain. The SQ(Supply Quality) assessment is utilized for discovering and selecting new partners, and a regular comprehensive evaluation is conducted on our existing partners to maintain sustainable cooperative relationships with them. Notably, in the future, KT&G aims to regularize ESG evaluation of partners and continue monitoring potential risks to identify and respond to risk factors likely to violate the law in advance.



Credential evaluation of new partners

In selecting new partners, KT&G conducts a credential evaluation (SQ) that includes human rights, labor conditions, environment, and business management capabilities. The duration of the certification is three years, and 85 companies have been certified since 2011 after screening 87 companies. Upon the findings that a partner is ineligible for the terms and conditions for the credentials during the screening process, we notify the partner of the details and reason for disqualification while the partner can take improvement measures and request for re-screening. 40% of the evaluation items for due diligence of partners are ESG-related, and our evaluation team consisting of employees with related work experience or certifications, conducts a site inspection.

New partner certification evaluation

Document evaluation	Safety evaluation	Quality evaluation	Due diligence evaluation
<ul style="list-style-type: none">Credit ratingsFinancial positionTechnology & production status	<ul style="list-style-type: none">Safety of additives	<ul style="list-style-type: none">Physico-chemical evaluationWorkability evaluation	<ul style="list-style-type: none">ESG-related evaluationEvaluation on quality and production

New partner due diligence evaluation items

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

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Regular comprehensive evaluation of existing partners

The regular comprehensive evaluation of existing partners comprises six indicators: finance, ESG, quality control, delivery quality, degree of cooperation, and international certifications. In 2022, we conducted a comprehensive evaluation of a total of 167 major partners trading with three agencies according to the evaluation process for partners, which includes 76 NTM/NGP material partners, 83 companies for constructing facilities partnering with the Real Estate Business Division, and 8 companies for sales materials partnering with the Sales Division. KT&G suggested improvement tasks according to the result of partner evaluation and plans to conduct on-site inspections in the future.

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

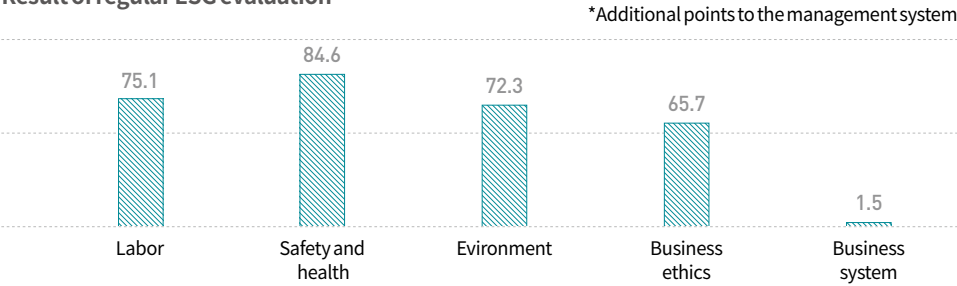
Regular ESG evaluation of existing partners

Regular ESG evaluation is commissioned by a third party to minimize legal risks and ensure the evaluation process’s professionalism and the results’ objectivity. The evaluation is classified into five indicators: online self-evaluation and on-site inspections. It consists of 87 items related to labor and human rights, safety and health, environment, ethics, and management system. KT&G reflects ESG evaluation results to the comprehensive evaluation of the partners for enhancing ESG management. We conducted an online evaluation of to top 55 partners in manufacturing and business volume out of NTM/ NGP material partners in 2022. The on-site inspection will be conducted to manufacturing partners and service partners with less than 70 points and 60 points, respectively, based on the final evaluation results in the future and we will support consulting service to the partners with insufficient results for each items to improve ESG capabilities.

Result of regular ESG evaluation

Our partners conducted the regular ESG evaluation in the first half of 2022. A total of 21 companies among 55 were the target of due diligence, including 16 companies in the manufacturing sector with less than 70 points and five with less than 60 points in the service sector. There were five evaluation categories, including labor, safety and health, environment, business ethics, and business system, with the highest 101 points, the lowest 17.5 points, and the average 74.1 points (20.4 points of standard deviation). Especially, items in the ethics sector needed improvement due to the lack of management. A number of partners’ evaluation scores have improved compared to the previous year, and we will actively support our partners in enhancing their ESG management.

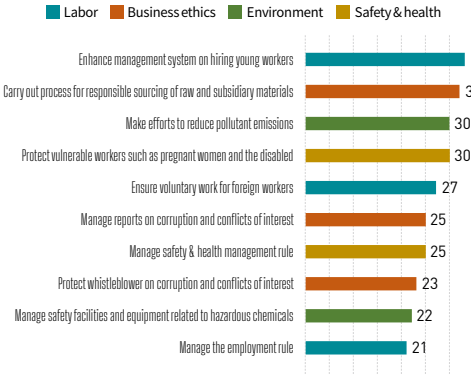
Result of regular ESG evaluation



Improvement tasks

The result of the ESG evaluation showed that most of our partners fulfilled labor, human rights, safety and health sectors while they are required to establish numerous improvement tasks in environment, labor, and ethics. Both manufacturing and service partners are needed to develop and supplement a management system upon inspection process in responsible sourcing of raw and sub-materials and young worker employment. The manufacturing partners need to improve environmental issues such as reducing pollutant emissions, while the service partners need to work more on improving labor and human rights issues.

Manufacturing partners’ improvement tasks top 10



Service partners’ improvement tasks top 10



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Enhancing ESG capabilities of supply chain

Building collaboration system with partners [Green Impact Alliance]

KT&G launched the Green Impact Alliance to pursue shared objectives with partners as the global market demands a more scope of ESG management. Fifteen partners accounting for more than 90% of the purchase ratio are the target of achieving common objectives from providing education and consulting such as the establishment of environmental goals and ISO certification in the short term to producing outcomes through development cooperation for improving the environmental capability of products in a mid and long term.

Short term	Mid-to-long term
Support education/consulting/certification aligned with international standards	Collaboration of R&D/development for environmental capability of a product

•KT&G supports establishing environmental goals for partners, implementation strategies for improvement, and plans to support the participation of international initiatives, including ISO certification.

•The Green Impact will be implemented by developing eco-friendly materials with less environmental impact and recyclable materials as a common goal under collaboration and support.

Conducting and supporting the third party on-site ESG inspection to partners

KT&G has made an enormous effort to monitor and manage potential risks to enhance the sustainability of its partners. In this regard, it conducts a regular ESG evaluation of the partners, and the on-site due diligence is also conducted as a third-party inspection if necessary. The self-evaluation is also carried out so that the partners can understand the actual status of their company, and active support and continuous monitoring enable partners to implement the improvement tasks derived from the evaluation. ESG consulting and partner data verification programs are conducted simultaneously in the on-site due diligence. We confirm the data reliability and issue verification certificates by reviewing the data management system of the partners. Moreover, we are promoting the operation of shared growth programs based on evaluation results for improving risks and performance. It is expected that the following will help the enhancement of partners' ESG performance capability and spreading risk management culture: supporting the introduction of a working system for efficient ESG data management, customized consulting according to potential issues and ESG trends, distribution of standardized documents, development, and operation of ESG education materials and courses, sharing excellent practices.

Regular ESG training for partners

KT&G organized the second ESG workshop for partners who account for 90% of purchasing NTM(Non-Tobacco Material) to support the achievement of 2050 carbon neutrality and sustainable management. In this workshop, the partners shared KT&G's environmental management vision under the name of 'Green Impact,' energy reduction cases of manufacturing factories, and participated in the lecture to raise awareness of ESG. In addition, we discussed ways to provide practical supporting measures, including environmental management training, management system on carbon footprint, customized consulting, global initiatives and ISO certification, and investment in facilities for energy reduction. Furthermore, KT&G conducted an additional demand survey to collect in-depth opinions for establishing an organic ESG collaboration system with partners. We plan to build a system for sustainable management in the future.



The second workshop for partners



Creating common ESG output with partners

ECO-Cargo program

ECO-cargo programs (ECO mileage and ECO change) were launched in 2021 with the increased social demands for low-carbon green growth and transition to an eco-friendly supply chain, strengthening ESG management capability.

ECO mileage

With the intention to reduce carbon emissions and fuel use by adopting the eco-friendly economic driving strategy, KT&G has been implementing the ECO mileage program since April 2021 for five partners and a total of 64 vehicles that have signed transportation contracts with us. The top 10 cars with high quarterly performance based on the driving scores of the T-map app are selected and will be rewarded with a preferential transportation section and our red ginseng products. Improving driving habits helped reduce 11 tons of truck carbon emissions while having the same impact as planting 967 trees.

ECO change

KT&G realizes green logistics by replacing aged cargo vehicles of our partners with a transaction record of more than seven years with KT&G to achieve eco-friendly and win-win management. Ten cars were selected to be the target of ECO change through pre-application, and KT&G paid 5 million won per vehicle. Furthermore, two aged cargo vehicles out of applied vehicles were fully supported for replacement. ECO change helps reduce 22.2kg of annual fine dust and gives the same effect as planting 622 trees. KT&G continuously plans to practice eco-friendly and win-win management through the ECO change program.

Funding for shared growth in the supply chain

KT&G operates various shared growth systems by supporting the promotion of welfare for its partners facing financial difficulties, including leaf tobacco farmers. We pay the whole amount of materials in cash every month. It is strongly recommended that primary partners pay cash to secondary partners. In 2021, we supported our partners by the early execution of about KRW 64.38 billion before the holidays. In addition, KT&G strives to relieve the burden on our partners by raising the purchase contract amount when the partner experiences an increased burden compared to the contracted time due to cost fluctuation factors, i.e., an increase in raw material prices.

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Sustainable Agriculture

Promoting STP(Sustainable Tobacco Program) for leaf tobacco production

Participation in the Sustainable Tobacco Program

Leaf tobacco is a raw material critical to the tobacco business of KT&G. The Company is pushing ahead with joining the STP Steering Committee in order to introduce the Sustainable Tobacco Program(STP), which is a platform jointly developed by global tobacco manufacturers with the goal of stable procurement of quality leaf tobacco cultivated by sustainable agricultural practices.

The STP evaluates and manages agricultural practices with a focus on four areas-- governance, crop, environment, and people(labor, human rights)—rather than quantity and quality. KT&G will set best practices for sustainable leaf tobacco production based on the Sustainability in Leaf Tobacco Production proposed by CORESTA(Cooperation Center for Scientific Research Relative to Tobacco), an organization of global tobacco manufacturers, overseas leaf tobacco suppliers, and research institutes. We will examine, evaluate and improve our agricultural practices from 2022 based on these set indicators.

Establishment of a Domestic Sustainable Tobacco Program

KT&G will introduce the STP which incorporates such factors as environment, protection of the ecosystem, labor and human rights, and history tracking, in order to strengthen the sustainability of domestic leaf tobacco farmers' production base by adopting global best practices.

In that regard, the Company held the "ESG Practice Declaration Ceremony for Leaf Tobacco Farmers" in June 2022, provided ESG training to the employees of a leaf tobacco production cooperative, and established a sustainable agriculture policy setting forth the basic principles pursued by the Company. Moving forward, we will establish regulations on leaf tobacco, develop an evaluation system to improve production management, and jointly explore ways to mitigate environmental impact, such as providing devices enhancing the thermal efficiency of leaf tobacco dryers, and introducing eco-friendly equipment.



ESG Practice Declaration Ceremony for Leaf Tobacco Farmers



ESG training to the employees of a leaf tobacco production cooperative

KT&G Sustainable Agriculture Policy

Focus areas of the domestic Sustainable Tobacco Program in 2022

KT&G is promoting STP for sustainable agriculture in Korea and is working to minimize environmental pollution and protect workers' human rights.

Necessary to analyze the environmental effect of equipment used in the cultivation of tobacco and respond to minimize environmental pollution preemptively.

- Collect waste plastics for agricultural use and pesticide bottles according to collection and disposal procedures
- Minimize air pollution by strengthening the maintenance of agricultural machinery
- Refrain from illegal incineration of agricultural waste
- Manage agricultural oil storage (oil for drying tobacco leaves, etc.)
- Minimize the use of pesticides through cultural control
- Install a fuel reduction device for exhausting heat (Minimize the burden on farms with the support of KT&G and Tobacco Production Stabilization Foundation)



Necessary to take preemptive measures with the understanding of the growing trend of leaf tobacco farms employing foreigners through service providers, and compliance with relevant law

- Prohibit child labor and forced labor
- Comply with safety regulations on work
- Establish measures for dizziness caused by harvesting leaf tobacco
- Pay wages in accordance with laws and regulations
- Comply with working hours stipulated in laws and regulations
- Ensure fair treatment without discrimination on gender, nationality, etc.
- Guarantee freedom of association



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Supporting the life of leaf tobacco farmers

Mutual benefit with domestic leaf tobacco farmers

KT&G purchases the entire amount of leaf tobacco every year and uses it in its products so that domestic tobacco farmers can operate stably after 2001 when the manufacturing monopoly of tobacco manufacturers was abolished. KT&G is the only domestic company continuing that practice and purchased 8,013 tons of domestic leaf tobacco worth KRW 80.2 billion in 2021 and will purchase about 8,000 tons of domestic leaf tobacco in 2022.

KT&G executives have been appointed as the founding director of the 'Tobacco Production Stabilization Foundation' to increase leaf tobacco farms' economic and social stability and productivity and are actively contributing to fundraising and its operation. Likewise, we will try to stabilize domestic leaf tobacco's production base. Furthermore, KT&G supports generating additional income for the stabilization of farms. We implemented the Haearin pepper powder business that supports the cultivation and sale of red peppers by utilizing resources such as farmland and technology owned by leaf tobacco farmers and supporting other sources of income besides leaf tobacco to encourage stabilization.

KT&G also pays 30% of the payment between April and May without interest so that tobacco farmers can pay for equipment and labor costs and constantly provides cash support to improve the welfare of the farms to overcome the COVID-19 situation.

Two-way communication with tobacco farms

KT&G identifies and improves issues found through the two-way communication with tobacco farms. Our employees actively participate in volunteer activities during the planting and harvesting seasons when there is a shortage of workers. In 2020 and 2021, we supported consolation funds to quickly recover leaf tobacco farms damaged by natural disasters.

We promoted the simplification of trimming and packaging leaf tobacco and encouraged purchases at the common trimming and packaging site in 2021, and will expand the practices which help minimize the workforce burden for farms in tobacco trimming in 2022.

Support for leaf tobacco farms (Cumulative from 2013 to 2021)

Farmers **7,957** persons
persons Support amount KRW
28.5 billion



Purchasing of domestic leaf tobacco in 2021

Farmers **2,854** persons
Purchasing volume **8,013** ton
Purchasing amount **80.2** billion



Raising fund (Cumulative from 2002 to 2021)

Total KRW **515.5** billion
KT&G KRW **417.3** billion (81%)
Other companies KRW **98.2** billion (19%)



Support through the Haearin project in 2021

Farmers **19** persons
Dried red pepper **10,680** kg
Purchasing amount KRW
2.03 hundred billion



• **Supplying of fuel reduction devices on leaf tobacco driers:** We plan to supply 84 units of fuel reduction devices (KRW 76 million worth of support) to farms to increase the income of cultivators and reduce greenhouse gas emissions by reducing fuel costs.

• **Purchasing leaf tobacco with paper packaging:** We are changing the packaging materials of the leaf tobacco from plastic to paper to alleviate the environmental burden.

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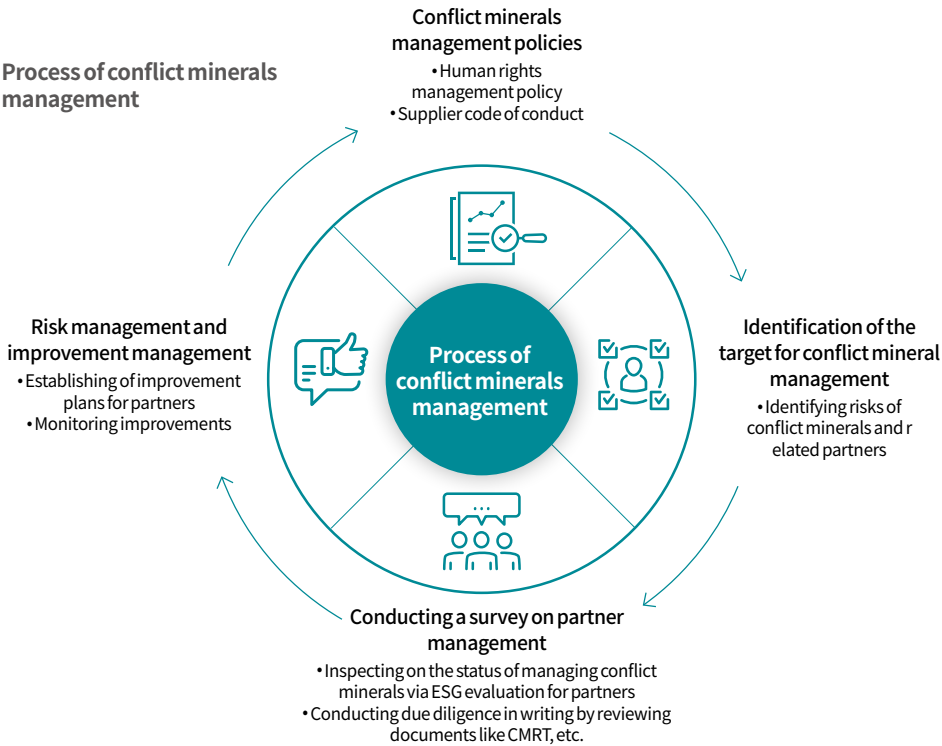
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Responsible sourcing of minerals

Conflict minerals

ESG evaluation for partners is regularly conducted to check ESG risk in the supply chain. The evaluation includes an item to check whether the raw and subsidiary materials are produced responsibly. We confirmed t



Management policies on conflict minerals

KT&G stipulates conflict minerals management through its human rights management policy and supplier code of conduct. In particular, it requires regular inspections to ensure that minerals purchased from partners are not related to human rights violations.

Identification of the target for conflict mineral management

KT&G strives to identify partners highly related to conflict minerals risk by analyzing partners' characteristics and minerals used. We are aware of the need for risk management focused on e-cigarette manufacturers and will inspect the relevance to conflict areas by identifying the use of minerals and their country of origin.

Reinforcement of Conflict Mineral Management

Conducting a survey on partner management

ESG evaluation for partners is regularly conducted to check ESG risk in the supply chain. The evaluation includes an item to check whether the raw and subsidiary materials are produced responsibly. We confirmed the written inspection results on the conflict minerals of some partners by delivering the CMRT(Conflict Minerals Reporting Template) and will expand the inspection to all our partners to check the relevant results.

KT&G will continue to build a regular inspection process for responsible sourcing of minerals for partners related to conflict mineral risks and strive to identify the risks to respond in advance. In addition, we will constantly broaden the scope of management to check the locations of all smelters and refineries and to identify if the conflict minerals are included in the supply chain long-term.

Risk management and improvement

The results of the ESG evaluation for partners are shared with all partners who implemented the evaluation. Furthermore, we also share the improvement tasks established based on the evaluation results, which include reviewing the source of raw and subsidiary materials and the production process. We will develop and share the improvement measures focusing on improving the risks of specific conflict minerals. In addition, we will identify and manage the current status by monitoring whether improvement measures are actually implemented and strive to operate a responsible mineral sourcing system.

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HUMAN RIGHTS MANAGEMENT

Human Rights Management Operating System

Human Rights Management System

KT&G seriously implements human rights policy established to identify early on and prevent human rights risks that could break out across business activities. For this, we are building a stronger human rights management process that includes respect for international standards and principles on human rights and labor, closer communication with both internal and external stakeholders and relief procedures.

Human Rights Management Policy

KT&G has established the KT&G Human Rights Management Policy to respect and protect the human rights of all stakeholders, including the officers and employees of KT&G, overseas manufacturing and sales organizations, subsidiaries, and members of business partners, including vendors and suppliers, among others, and strives to comply with the policy strictly. KT&G appreciates and respects the various international human rights initiatives relating to basic human rights that have been adopted and announced by international organizations, such as the Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, Ten Principles of the UN Global Compact and the labor standards presented by the International Labour Organization. In addition, to practice the foregoing, KT&G would not only comply with the international standards and principles relating to human rights and labor but also stimulate internal/external communications and reinforce the human rights management process including remedial procedures.

 [KT&G Human Rights Management policy](#)



Principles of Human Rights Management



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Human Rights Management Governance

KT&G strives to implement high-level human rights management in all its business activities by building a human rights management system consisting of 'Sustainability Committee-ESG Management Council-Strategy & Planning HQ ESG Planning Team- Working-level Council.' The Sustainability Committee under the Board is the highest decision-making support organization on human rights issues. With the ESG Planning Team as the control tower, we will promote human rights management through the working-level council and report the implementation to the Sustainability Committee, the best decision-making organization. The Working-level council comprises working-level officials from related departments, discussing the roadmap for human rights risk management and implementation plans.

Participation by Stakeholders

KT&G defines executives and employees, customers, local communities and NGO, shareholders and investors, the government and media as key stakeholder groups. To enhance transparency and efficiency in our business activities and secure trust and support from stakeholders, we opened a communication channel with stakeholders, which engages stakeholders further and build stronger trust and support from them. Our efforts to keep this engagement to identify human rights issues, set improvement items to internalize human rights management will continue.

 Communication with Stakeholder

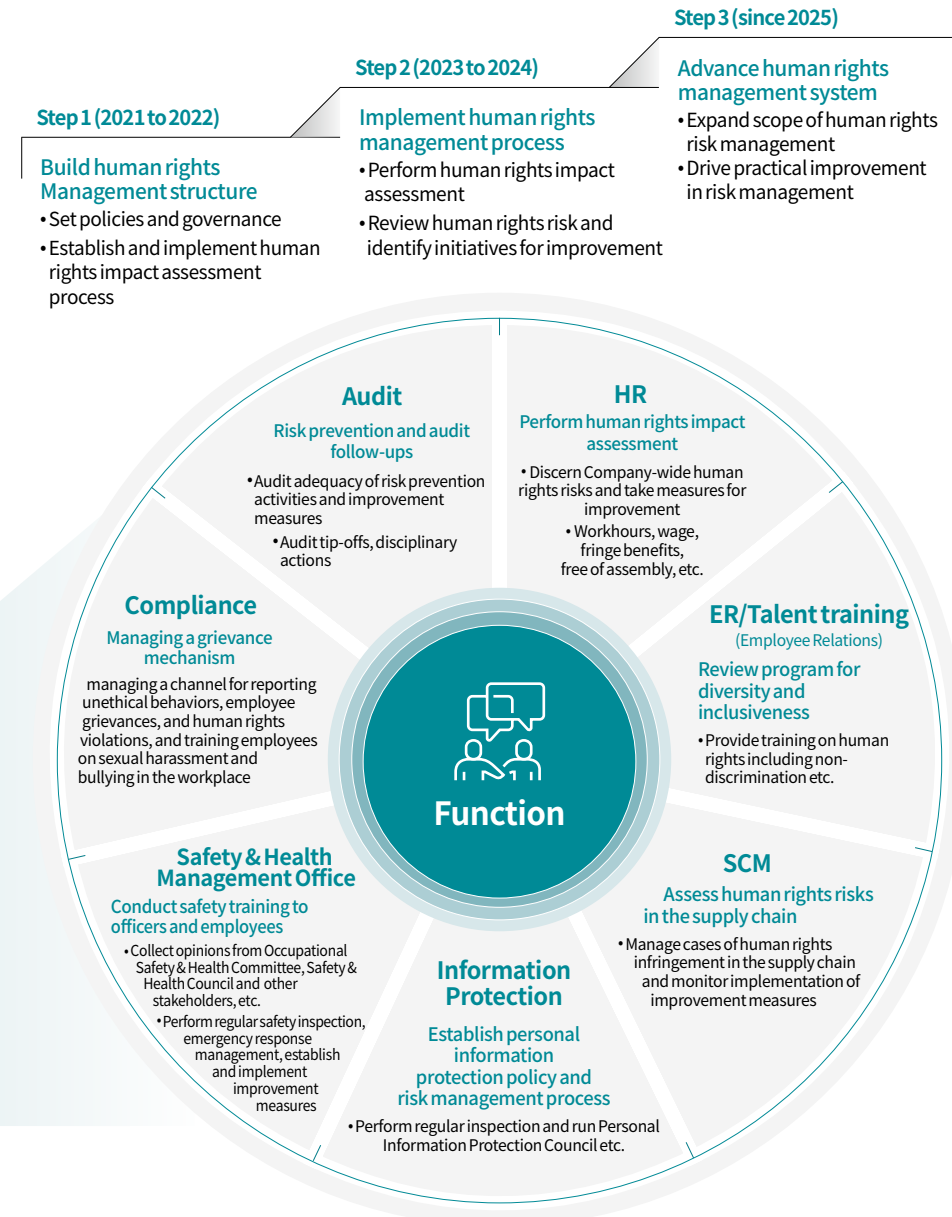
Human Rights Management Governance



*T/F composed of in-charge personnel by team

Human Rights Risk Management Roadmap

KT&G has established a management roadmap to strengthen human rights management and advance risk management. Accordingly, we plan to systematically perform a human rights impact assessment by 2025 and expand the scope of the implementation to include overseas business sites.



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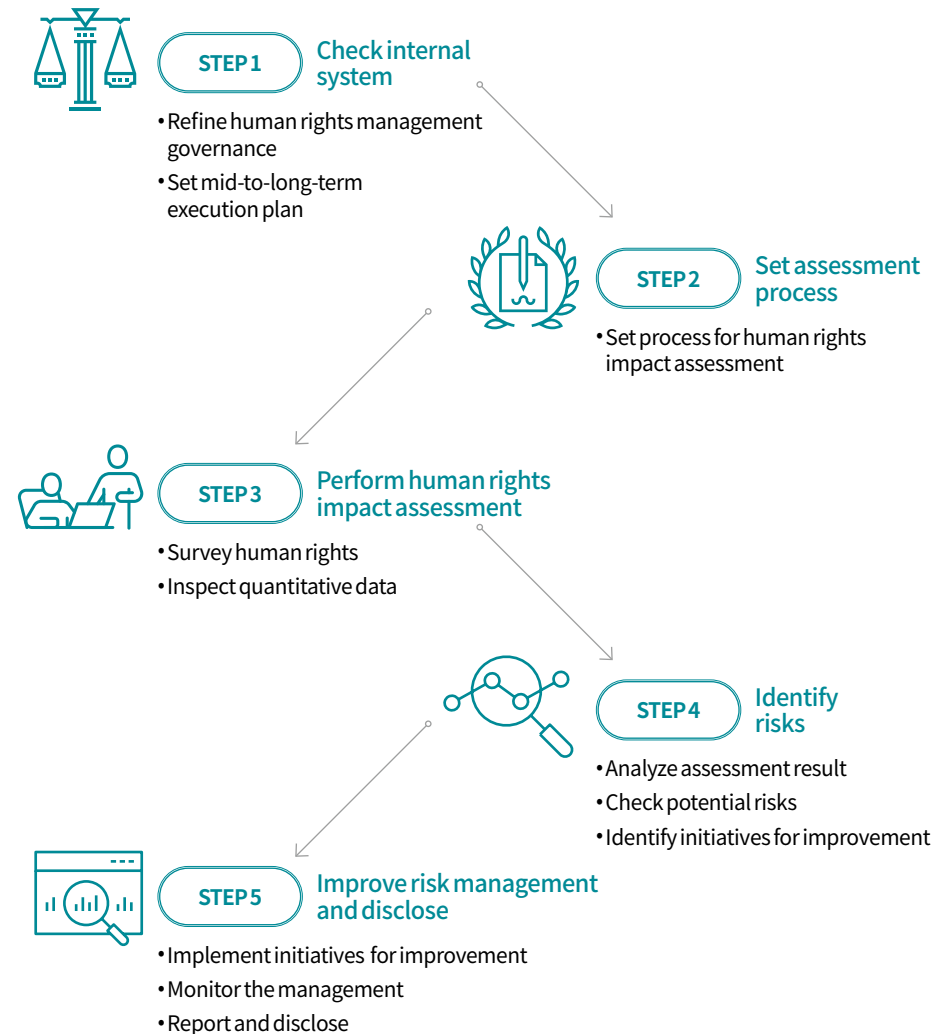
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Management Framework for Human Rights Management

KT&G is building a management system to identify and improve potential human rights risks by conducting human rights monitoring and due diligence throughout the value chain, including domestic and overseas business sites, subsidiaries, and partners. Internally, KT&G reorganized human rights management governance and established a human rights impact assessment process, and conducted a human rights impact assessment for employees of the HQ to understand the actual status of human rights management inside and outside the company. In the future, KT&G will regularize the human rights impact assessment and gradually expand the scope of the assessment to all business sites.



Process of assessing a human rights risk

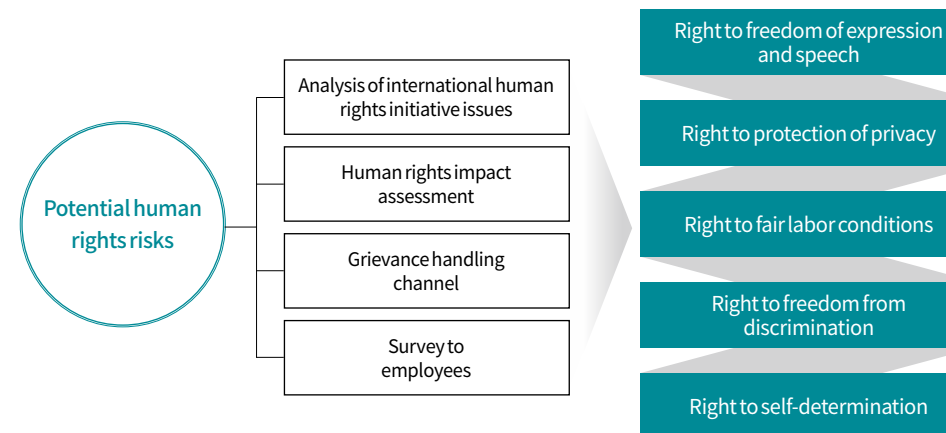
KT&G strives to review the company's human rights policy and management process, identify potential risks, preemptively identify problems, and develop improvement plans. We will make more effort to create a better culture of respecting human rights by setting goals for the human rights issues and continuously monitoring them.

Human rights risk assessment

Identification of potential human rights issues	Definition of vulnerable human rights group	Implementation of the human rights impact assessment	Establishment of improvement plans	Sharing of the result
<ul style="list-style-type: none"> • Evaluate human rights risks • Identify a core issue 	<ul style="list-style-type: none"> • Map out vulnerable groups • Analyze human rights issues by group 	<ul style="list-style-type: none"> • Analyze the current status of risks • Conduct a survey • Handle grievance process channel • Carry out due diligence 	<ul style="list-style-type: none"> • Set a target and objectives • Identify improvement plans and responses 	<ul style="list-style-type: none"> • Report internally • Disclose publicly

Potential Human Rights Risk Identification

KT&G analyzed issues related to the international human rights initiatives such as the Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, Ten Principles of the UN Global Compact and the labor standards presented by the International Labour Organization, and understood the cause of major human rights risks through the human rights impact assessment, grievance handling channels, and a survey to employees. As a result, potential risks such as 'right to freedom of expression and speech', 'right to protection of privacy', 'right to fair working conditions', 'right to be free from discrimination', and 'right to self-determination' were derived. Therefore, we will apply the zero tolerance principle to all discriminations that may occur in business operations, such as gender and race, and try to prevent risks.



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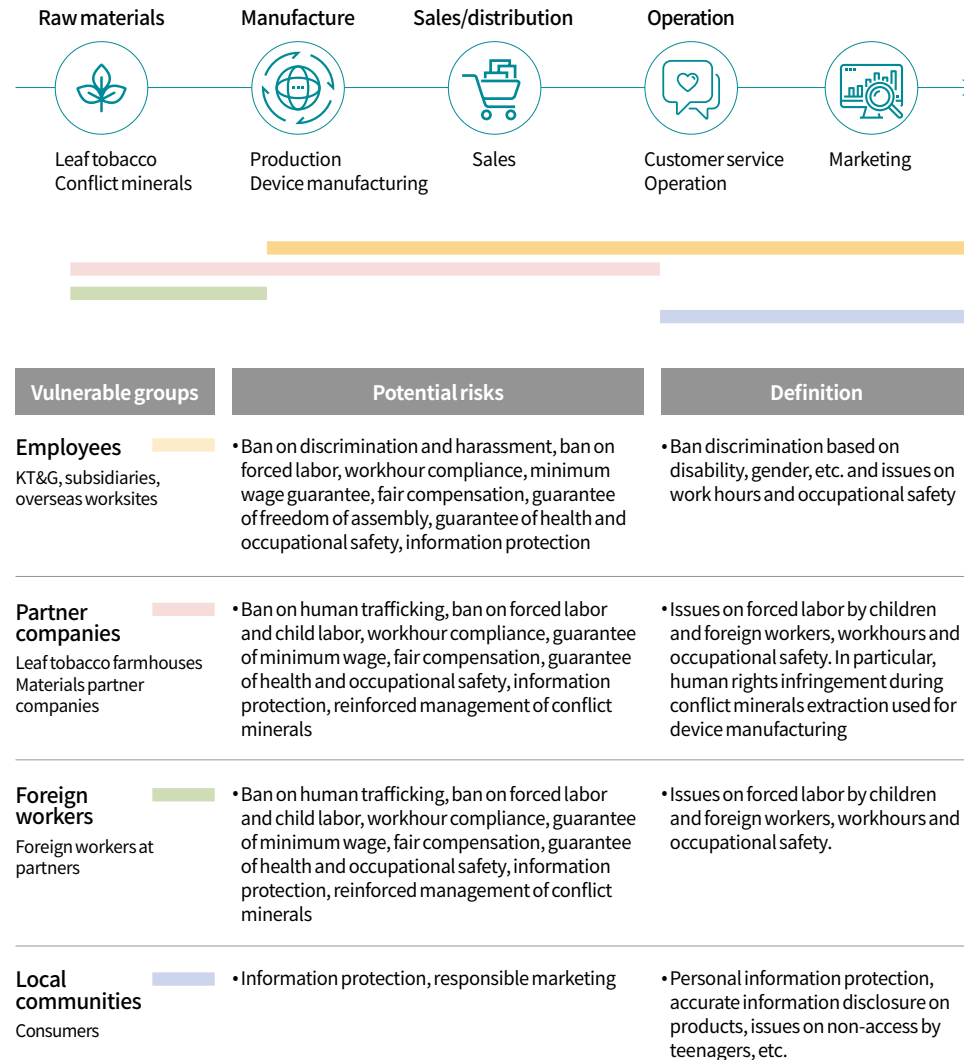
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Definition of Group Vulnerable to Human Rights

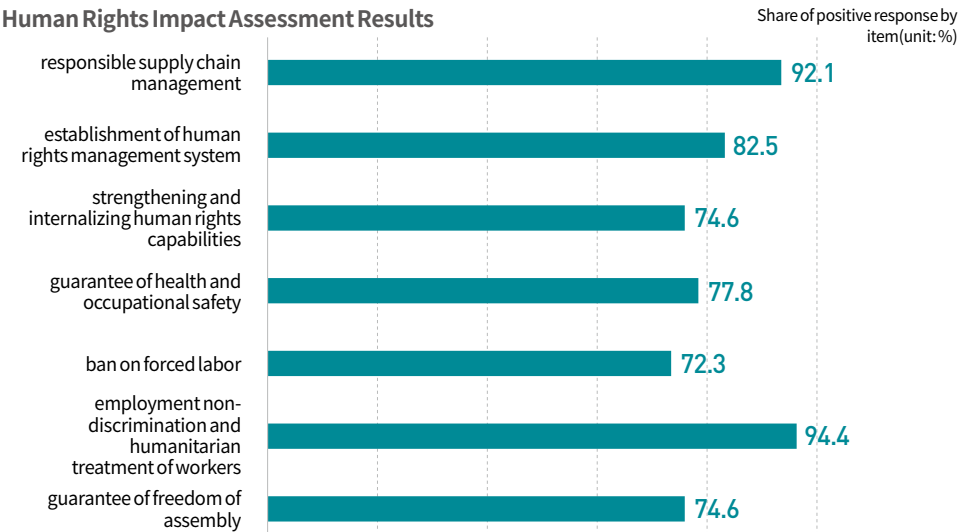
KT&G discerns groups that are relatively more vulnerable to human rights risks and takes preemptive response measures. We will go further and build a risk mitigation process by expanding stakeholder survey scope to subsidiaries and partner company at home and abroad, thus open collect more opinions and execute improvement items.



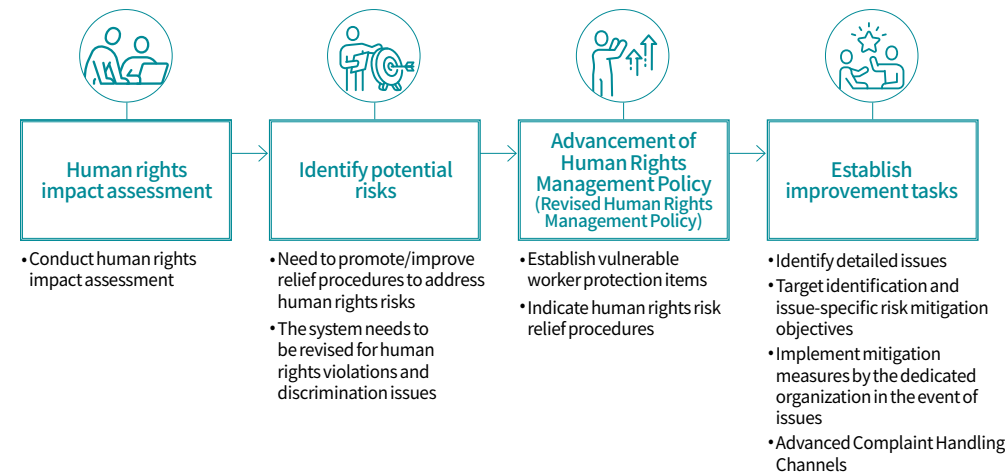
Human Rights Impact Assessment

KT&G identifies human rights issues of stakeholders through the human rights impact assessment and grievance handling channels, and complies with the principle of protection, respect, and relief. According to the result of the human rights impact assessment to the company's employees, about 92% of employees are aware that it is vital to protect human rights in business operations. Accordingly, KT&G will strive to take the lead in protecting the human rights of its employees by embedding human rights management and preventing potential human rights risks preemptively.

Human Rights Impact Assessment Results



Guarantee of Freedom of Assembly Establishment of improvement tasks



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Human Rights Due Diligence Checklist

KT&G has established human rights survey checklist to regularize a human rights risk assessment. The checklist consists of 133 questions, including the establishment of human rights management system, prohibition of discrimination in employment, prohibition of forced and child labor, guarantee of occupational safety, responsible supply chain management, protection of residents’ human rights, protection of private information, and identifies management system by human rights issue and confirms and the compliance with the global standards. KT&G plans to apply the checklist to all workplaces to identify overall human rights risks in the business operation.

Category	Item	Indicator
Establishment of human rights management system	Necessary measures for embedding human rights management in a system	<ul style="list-style-type: none">• The Company establishes Human Rights Management Committee and dedicated organization handling human rights management issues, designates personnel in charge and specifies his/her roles and responsibilities.• The Company checks human rights risks of Head Office and partner companies and introduced a process of setting and implementing corrective measures.
	Reinforcement and internalization of human rights competency	<ul style="list-style-type: none">• The Company provides regular human rights training to internal stakeholders including workers
Non-discrimination in employment and humanitarian treatment to workers	Gender non-discrimination in employment	<ul style="list-style-type: none">• In relation to employment, the Company does not discriminate based on gender, religion, disability, age, social status and hometown.
	Non-discrimination of contract-based/foreign workers	<ul style="list-style-type: none">• The Company does not unfairly discriminate or treat contract-based employees or foreign workers.
	Maternity protection	<ul style="list-style-type: none">• The Company complies with regulations on birth leave, maternity leave, extended work for pregnant employees.
	Prevention of office bullying and sexual harassment	<ul style="list-style-type: none">• The Company puts forth protective measures for the offended such as counseling and provides support for appropriate relief.
Guarantee of freedom of assembly and collective bargaining	Freedom of assembly and collective bargaining and ban on unfair treatment for joining labor union	<ul style="list-style-type: none">• The Company allows establishing a labor union and does not put employees who join the union at a disadvantage.
Ban on forced labor	Ban on forced labor and child labor	<ul style="list-style-type: none">• The Company bans forced labor of all kinds and does not employ minor aged under 15.
	Ban on forced labor and child labor by subsidiaries and contractors	<ul style="list-style-type: none">• The Company keeps monitoring subsidiaries and contractors against forced labor or child labor.
Guarantee of occupational safety	Protection of pregnant employees and the disabled	<ul style="list-style-type: none">• The Company takes additional safety and hygiene measures for pregnant employees, the disabled and other vulnerable workers.
	Support to employees in industrial accident	<ul style="list-style-type: none">• The Company establishes and operates policies to prevent industrial accidents by gathering opinions of experts, etc.• The Company supports medical expenses to workers who are injured or fall sick while in duty
Responsible supply chain management	Prevention of human rights infringement and monitoring to contractors	<ul style="list-style-type: none">• The Company establishes Code of Conduct of contractors.
	Responsible minerals sourcing	<ul style="list-style-type: none">• The Company demands responsible mineral sourcing to contractors.• The Company evaluates human rights risks associated with conflict minerals in the supply chain and establishes/executes improvement plan.
Protection of personal information	Strict personal information management	<ul style="list-style-type: none">• A personnel responsible for collection and management of personal information is designated and his/her name is disclosed.

In-house Human Rights Awareness Improvement Program

KT&G implements Company-wide human rights training and prevention program every year with the goal to create a culture of respecting human rights and enhancing executives’ and employees’ human rights awareness. In compliance with 「Labor Standard Act」, in particular, we provide annual training to all executives and employees on prevention of office bullying through the abuse of status or relations in the workplace. ‘Prevention of Sexual Harassment and Bullying in the Workplace and Handling Guidelines’ clearly specifies the handling procedures to keep everyone alerted and requires all executives and employees to submit a written pledge.

Human rights impact	Management system and prevention program
Freedom of assembly and guarantee of collective bargaining rights	<ul style="list-style-type: none">• Conduct collective bargaining every year• Hold quarterly Labor-Management Council• Notify agreements of collective bargaining via in-house intranet
Ban on discrimination in employment and at work	<ul style="list-style-type: none">• Diversify recruitment method and channel, pre-monitor discriminatory elements that could arise from recruitment procedures• Hold 1:1 interview after evaluation and run objection system
Improvement of work conditions	<ul style="list-style-type: none">• Manage by blocking network and PC-off system• Run job sharing model operation• Run 1・3・5 campaign(5 promises for happy work and life)
Human rights infringement prevention activities(all executives and employees)	<ul style="list-style-type: none">• Establish handling guidelines to prevent office bullying and require written pledge submission by executives and employees• Conduct training on preventing office bullying• Designate call center operator handling sexual harassment cases and conduct training on prevention of sexual harassment• Conduct training on improving awareness on the disabled

 Unethical Reporting Channel

 Guidelines on the Protection Persons Reporting Unethical Conduct

Human Rights Infringement Complaint and Relief Procedures

KT&G establishes and complies with human rights management policies to preemptively prevent human rights violations and operates a complaint handling report system to solve human rights violations such as harassment, solicitation, and abuse of power in the workplace. The compliance support department is in charge of the overall operation of the reporting system. When a report is received through a channel, the department in charge requests and investigates facts according to the report receipt and processing manual. At this time, the reporter is guaranteed anonymity by the “Guidelines for Protection of Unethical Reporting Persons” and can be protected from personnel such as forced department movement or other disadvantages and retaliatory acts. In the future, we will continue to strive for transparent human rights management by conducting education and campaigns, pledges to prevent bullying in the workplace, and self-diagnosis so that executives and employees can be familiar with human rights management policies and participate in human rights management.

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DIVERSITY AND INCLUSIVITY

Inclusive Corporate Culture In-house Diversity Promotion Program

In order to emerge into a global company, KT&G creates a culture in which every executive and employee with diverse background, values and mindset can respect and embrace each other. To do so, the Company declared Code of Conduct that emphasizes diversity and inclusiveness so as to ensure that everyone is free of discrimination due to gender, ethnicity, nationality or religion and fair opportunities as well as basic rights are respected. We set forth the group-wide ‘KT&G Code of Conduct’ so as to elevate awareness by subsidiaries and overseas worksites as well. Moreover, KT&G runs policies and programs that support everyone in the Company including women, youth, senior and employees working overseas to focus on their work, demonstrate competency and improve their capabilities. We will continue to build the environment conducive to creating an inclusive corporate culture and exhibiting competency of all executives and employees.

Gender-Equal Opportunities and Evaluation

KT&G tries to remove potential elements of gender discrimination from recruitment to performance evaluation, promotion, wage structure, training, relocation and retirement to ensure gender-equal and discrimination-free employment. As a result, KT&G was selected as a Company with Excellent Gender Equality Culture by the Ministry of Employment and Labor in 2017 and obtained the Equal Salary certification in 2021. KT&G’s commitment to providing equal opportunities and ensuring fair evaluation for everyone in the Company will remain unchanged.

Announcement and recruitment

- Introduced blind recruitment
- Strengthened PR activities focused on inviting more female job applicants
- Developed a system to root out prejudice against female workforce and culture averse to employing women
- Increased share of female interviewers for interview-based recruitment
- Honors blind recruitment principle and requires evaluators to submit written pledge
- Expanded scope of applicants subject to AI interview and further utilize its results
- Ran special program for female workforce management (new employee follow-up course)

HR evaluation and promotion

- Promoted promotion of experienced female specialists in 2020
- Built training infrastructure to enhance competency of employees on long leave of absence due to childcare leave and to provide work support upon return

Compensation management (wage structure)

- Acquired 202 Equal Salary certificate

Training

- Follow-up course for new employees in their first year
- Assigns female employees as operating staff who provide general consulting on new employees’ future career development plan, job competency improvement and grievances in workplace, etc.

Work-Life Balance

- Automatically shift birth leave to childcare leave

Work-Life Balance

KT&G runs maternity protection policy and supports all female executives and employees to maintain work-life balance and demonstrate their competency at the same time. Female employees’ (regular employees) average years of service is 16.2 years, which is more than double the average in Korea’s top 100 companies, and indicates that our efforts for a more diverse and inclusive culture paid off. In recognition, KT&G acquired ‘Family-friendly Company’ certification from the Ministry of Gender Equality in 2015, won 2018 Prime Minister’s Award for being a ‘Family-friendly Company’ and was selected as an ‘Outstanding Work-life Balance Company’ by Ministry of Employment & Labor in 2015, which all suggest that our achievements in creating a sound corporate culture have been fairly acknowledged by many external organizations.

In addition, we run policies and programs related to birth and childcare to make sure female employees’ career is not interrupted by birth or childcare. Maternity leave is automatically applied for female executives or employees in birth leave and anyone who has a child under the age of eight can go on a childcare leave for up to two years. The Company supports KRW1 million in the first year after birth and KRW2 million in the second year. Other policies such as in-house daycare center, childcare allowance (KRW0.2 million for first, second child, KRW0.3 million for third child), leave of absence due to birth (KRW1 million a month) are available for female employees upon pregnancy, support for infertility medical treatment expense, etc. are in place to help KT&G executives and employees strike work-life balance and be more engaged to their work.

Training and activities to enhance D&I awareness

KT&G respects different opinions based on the belief that employees can immerse themselves in their work and grow in a culture where diversity, equity, and inclusion are respected. We operate training and activities for each position to create an environment where people can freely express their opinions. The training for each position includes millennial leadership training for new executives, coaching leadership training based on mutual communication for team leaders in the sales department, and curriculums on organizational communication and understanding of other generations for newcomers. We operate the training in a way to establish the correct perception of the concept of D&I for each position. Sangsang Junior Board, an organization created to improve corporate culture, selected its theme as ‘D&I’ seeking programs to create a respectful corporate culture.



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Job Support to the Underprivileged

KT&G recruits high school graduates and re-employs retirees to support non-discrimination to the underprivileged, offer fair opportunities and ease the tight job market as a responsible corporate citizen. We approach organizational conflicts that may arise from it as a Company-wide issue rather than an individual issue and, therefore, seek to create cohesion by implementing mentoring program, etc.

Recruitment of High School Graduates

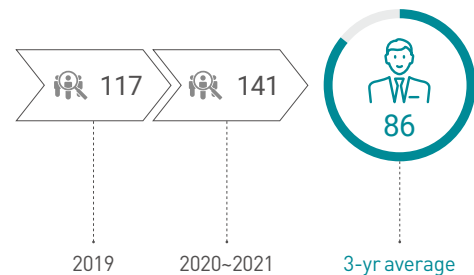
KT&G introduced a unique customized high school graduate recruitment process in 2012, which is still up and running. We adopted A.I interview to ensure a more objective and rational recruitment process in 2019 and try to provide fair opportunities to applicants by utilizing various verification tools. As of 2021, there are more than 400 high school graduates working at KT&G.

Re-employment of Retirees

KT&G re-employs high-performing retirees in manufacture/raw materials in recognition of their dedication to the Company, work experience and skills. We re-employed 45 retirees in 2019, 42 in 2020 and 41 in 2021 on year-end basis who are given the same treatment on schooling expense to children, medical expense support and other fringe benefits as with regular employees.

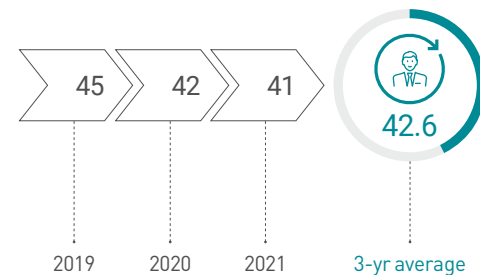
Recruitment Status of High School Graduates

(Unit: number of high school graduate employees)



Re-employment Status of Retirees

(Unit: number of re-employed retirees)



Support and Training to Soon-to-retire Employees

KT&G's 'leave of absence to support job transfer' helps executives and employees to start a business or find a new job for a better life post-retirement. The customized program targeting executives and employees who are retiring in the current year provides training every half year.

Programs for Cultural Diversity

In pursuit of successful 'Glocalization' (globalization + localization), KT&G supports inclusiveness on cultural diversity as a global company with nine overseas subsidiaries and one overseas office. Accordingly, we let executives and employees take opportunities to grow into leaders of local subsidiaries and runs programs for KT&G workforce to develop their global competency and adapt to different cultures.

In 2016, KT&G Global HQ launched Global M.V.P course in which foreign executives and employees of high competency were invited to participate in programs on understanding KT&G, culture, corporate value chain encompassing manufacturing to R&D and marketing, loyalty improvement, etc. to help further sharpen their competency level. The Company also provides opportunities for these foreign executives and employees to grow into leaders.

KT&G's Indonesia subsidiary and China office provide leadership and business management training courses for team leaders/managers with the goal to nurture next-generation leaders. All overseas subsidiaries run on-boarding program for local workforce to get familiarized with KT&G corporate culture and develop job competency. They also open various job training programs on marketing and sales, negotiation and communication, etc.



Global MVP Program



Russia subsidiary Field Team Conference

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Equal Salary Policy Certification

Equal Salary Certification Process

Statistical Analysis of Wage Documents	Questionnaire to Executives and Employees, Verification of Documented Policies and Practices	Questionnaire to Executives and Employees, Verification of Documented Policies and Practices	Certification and Monitoring
<ul style="list-style-type: none">• Analysis Monthly/yearly wage, grade, step, leave of absence(Y/N), wage based on job function etc.	<ul style="list-style-type: none">• Questionnaire Questions on Company policies and practices to around 200 employees• Response to request Policy, establishment of management process, submission of data management plan	<ul style="list-style-type: none">• Management CEO, Head of Business HQ• HR management HR department, Head of HR department• Executive and employees Management, executives and employees of institutions selected on random basis	<ul style="list-style-type: none">• Certification Aug. 2021• Monitoring Annual audit



KT&G ensures fair and even opportunities to executives and employees based on competency and capability. The Company also honors a discrimination-free wage policy that pays equally to all equally-qualified employees regardless of gender. Indeed, our efforts to get official accreditation for our wage policy based on a specialized and objective standards from global not-for-profit foundations and third parties paid off as we became the first listed company in Korea to have earned Equal Salary certificate from Equal Salary Foundation in Aug. 2021. We take this as the starting point in evolving our human capital management policy and system on a sustainable basis and walk the talk around strict human rights management. Equal Salary certification took roughly five months that went through various processes on statistical analysis, survey to employees, audit interview with employees and verification on the Company's official policies. In the course of doing so, recruitment, promotion, evaluation, compensation, training and the generals about HR policies and programs were subject to verification and evaluation. Focus group interview looked at employees' awareness audit procedures and related policies to check whether or not top management is committed to equal treatment and walks the talk. Whether or not elements that ensure sustainability of fairness in wage, promotion and compensation were included across the HR operation process were evaluated as well. The certification is effective for three years and KT&G will get its effectiveness reconfirmed via annual monitoring verification until 2024.





Communication
Employee Relations

KT&G reorganized the Communication and Empathy Department, which was established in 2015 for promoting internal communication, to Employee Relations Team in Apr. 2021 with focus on creating a progressive global corporate culture. The ER team concentrates on creating an environment where members can work with pleasure by adopting family-friendly management and smart works and developing member convergence content while building positive relationships between the members and their work, colleagues, and company.

KT&G CI Diagnosis

KT&G is keen about listening to others' voices and reflecting them in business operations as part of the efforts to create a progressive global corporate culture. Subsequently, KT&G developed KT&G CI, which consists of corporate vision, leadership, way of work and employee relations, to manage corporate culture in a system and diagnosed status of corporate culture. The voices collected through the diagnosis serve as the basis for planning and executing various programs. In Sept. 2020, 「Leader's Insight」, which is a customized monthly newsletter on corporate culture targeting leaders, was published to share leaders' role in an organization, how to manage an organization and coaching skills, thereby improve leader competency. On top of that, 'KT&G WIKI' platform went live for smooth flow of internal information through FAQ by team, corporate PR contents and other information while smart TVs became the tool in pilot institutes to improve reporting culture. In 2022, KT&G will perform another CI diagnosis and keep its ears open to the voices of everyone in the Company. Based on findings from diagnosis KT&G will engage in effective follow-up activities and create a work-friendly corporate culture.

Areas of Corporate Culture Diagnosis

 Corporate vision	 Leadership	 Way of working	 Employee relationship
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Engaging ESG Campaign

KT&G responds to the government's tightening policies on ESG management and growing voices of stakeholders on ESG with a program that engages all executives and employees to ESG management and relate to it in order to internalize ESG management in the organizations. Remarkably, KT&G has performed the 'Feel Green' Campaign, which means that the employees FEEL the importance of the environment by themselves through the COMPULSORY environmental protection activities since 2021. Pil Green Campaign evolved in three stages. In stage one, the Company created and distributed tumblers embodying corporate identity as part of the tumbler campaign. By doing so, it engaged executives and employees to the use of multi-usables. In stage 2, the Company launched plogging activities to make a green footprint towards keeping ourselves healthy and preserving Mother Earth. In stage 3, we used waste banners in the workplace to make pouch and sell them in internal bazaar for upcycling. Income from the bazaar was entirely donated to environmental education organizations, which allowed executives and employees to create a new value for themselves and appreciate the power of donation. As it has, KT&G will stay committed to eco-friendly activities that are expanding across the organization, align employees to environmental vision and take green steps as a corporate citizen.

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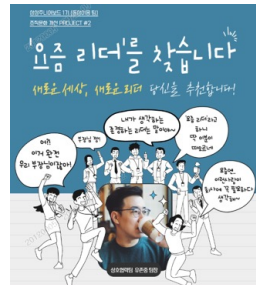
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Communication Channel with Top Management

In May 2021, KT&G reorganized 'Sangsang Realization Committee', which is a body dedicated to improving corporate culture, and launched the first 'Sangsang Junior Board' represented by ten employees in their 20s and 30s.

Young members of 'Sangsang Junior Board' who will be KT&G's future leaders are contributing to creating a dynamic and an innovative corporate culture that champions diversity and inclusiveness and building a flat corporate culture by communicating with management. In addition to this, KT&G launched CA(Change Agent) composed of 19 employees in marketing organizations nationwide and plants who take the lead in improving corporate culture in each workplace. KT&G's efforts towards building a corporate culture where executives and employees feel happy will continue.

Sangsang Junior Board Corporate Culture Campaign



KT&G Today's Leader Contest

Present CEO Award to a leader recommended by employees and designate him/her as role model, promote him/her as case of outstanding leader

Respect and trust

Clear work order
and feedback

Drive for change
and innovation



Mental Care Project

Perform stress test to all executives and employees, run professional mental counseling, analyze key causes of stress, there by guide the way towards better corporate culture

※ Plan to introduce professional psychological care programs for employees from 2022



Flexible Work Promotion Project

Run survey on status of flexible work in the Company, identify areas of improvement and disseminate across the Company

Inter-generational Communication Culture

KT&G hosted 'The Voice of KT&G' twice in 2020 ~ 2021, singing contest enjoyed by all executives and employees in the Company. The preliminaries were conducted and broadcast online, considering the COVID situation, and the finalists had the opportunity to perform on the live stage of 'KT&G Sangsang Madang.' KT&G will keep exploring rich and diverse contents at the right time with which everyone can communicate, build harmony with each other, hence build a more flexible organizational culture.

Video Contents 'Naesikyung'

- Interview contents to enhance understanding between generations, classes and build unity
- Produced episodes on new employees, Millennials, senior female employees, in-house lawyers, World Cup babies, employees with 40 years of service, etc.



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Employee Cheer Up Program



'Back to Normal Life Kit' to Executives and Employees

KT&G distributes 'Cheer Up KT&G' kit to all executives and employees, which contains CEO card and supplementary health product, to support healthy life and emotional security to KT&G workforce and their families affected by COVID-19 directly and indirectly, and work vacuum, etc.

'Back to Normal Life Kit' to Executives and Employees

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Morale Boosting Program

KT&G launched morale-boosting programs such as distributing New Year resolution kits and Company anniversary chocolates.

Operation of 'Celebration/Cheering/Care' program reflecting the times and diversity

Under the theme of 'Celebration/Cheering/Care,' KT&G operates a family-friendly program to share the joys and sorrows of our employees year-round.



A Culture of Mutual Respect and Communication between Labor and Management

KT&G respects freedom of assembly by executives and employees as specified in International Labor Organization Conventions and domestic Labor Act. The Company also guarantees free activities by the labor union. KT&G labor union is an industry-based labor union under the Federation of Korean Trade Unions. The KT&G labor union was established in 1958 pursuant to the Association of Monopoly Trade Unions standards, and as of the end of 2021, about 3,583 of 3,583, which is 100% of the members, have joined.

Every year, labor union and the Company open discussions on various agendas including HR, wage, fringe benefits, occupational safety and social contribution at the collective bargaining and produce solutions for improvement. Also, the two parties share KT&G's mid-to-long-term strategies set on the basis of business environment outlook and strategic directions in order to build a common ground for a brighter future. The management and labor union hold quarterly labor-management council, sessions with union members on as-needed basis. During COVID-19 emergency labor-management council meetings were held many times to respond to the pandemic situation by introducing flexible work hours, telecommuting and various other support measures for executives and employees.

Furthermore, KT&G established Employment Security Committee, which is equally represented by the management and labor union as part of the collective bargaining. The Committee guarantees free discussions on critical matters such as consolidation, personnel restructuring or relocation when changes in the business environment raise such needs. As the two pillars of KT&G, labor union and management have created a exemplary labor-management culture based on mutual understanding, trust and harmony, which allowed the Company to stay strike-free since 1989 when it changed the company name to Korea Ginseng & Tobacco Institute.

Labor Union Membership Rate (as of end of 2021)

Union members

3,583



Membership rate

100%

*Participation rate compared to those eligible for union membership



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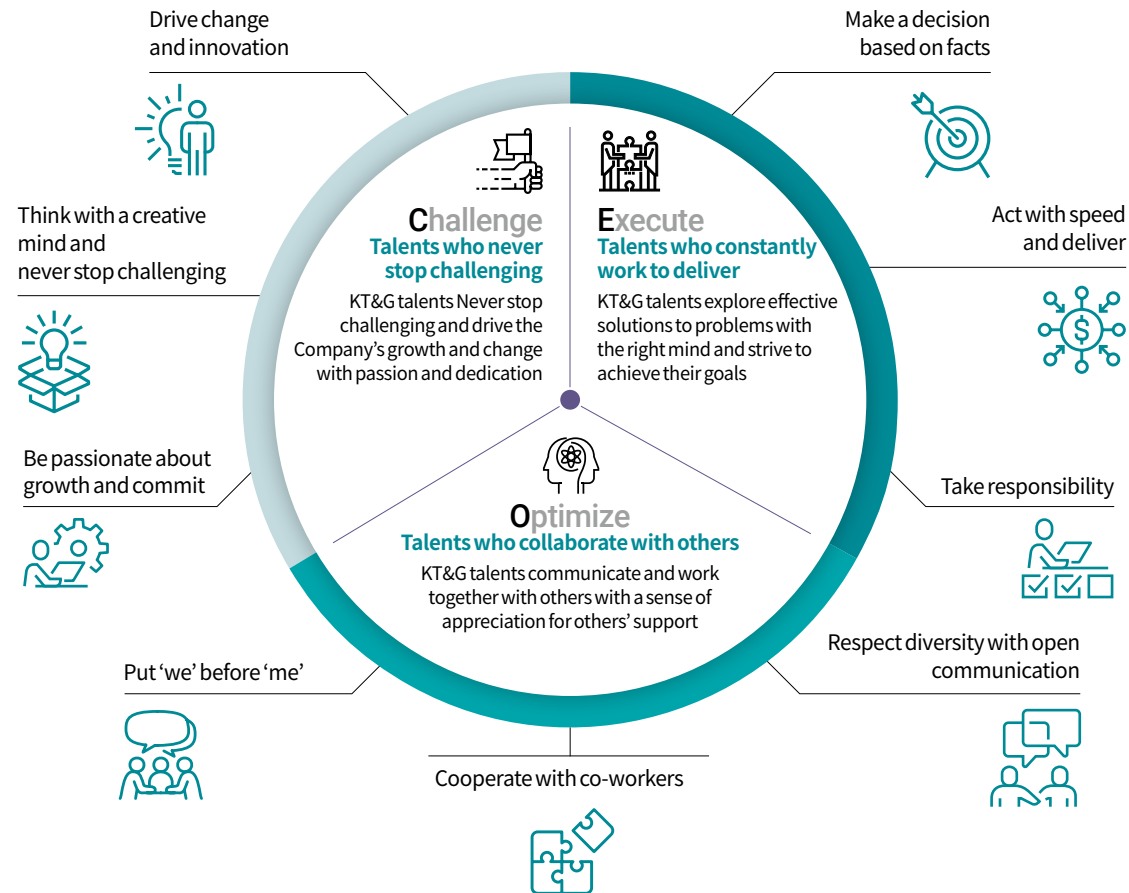
ATTRACTION OF TALENTS AND CAPACITY BUILDING

Key Talents and Cultivation

HR Philosophy

KT&G puts efforts to recruit competent talents capable of constantly challenging oneself and engaging in mutual collaboration with others for growth and change. To this end, the Company relies on blind recruitment and bans discrimination based on gender, educational achievement, regional background and disability. KT&G is also committed to being a socially responsible corporate citizen that creates jobs for young men and women and the socially disadvantaged by ensuring fairness throughout the recruitment process.

In addition, we manage human resources, cultivate talents and evaluation performance based on job in alignment with individual CDP(Career Development Program) of executives and employees. By doing so, we encourage executives and employees to voluntarily improve their performance and value, thereby feel more satisfied about their job. KT&G's diverse range of HR programs from wage peak to customized leave of absence, active use of annual leaves, training support and welfare card enrich leisure activities of our workforce, thereby go further in building a happy workplace.



Evaluation and Compensation

KT&G's Total Reward adds up both monetary compensation such as wage and non-monetary compensation such as needs of executives and employees to support a life that is more secure and abundant. Performance evaluation and competency evaluation are conducted separately for internal fairness and external competitiveness. Coaching on performance and mentoring program run throughout the year.

Fair Performance Evaluation

KT&G does not place a cap on high scorers, which is an absolute evaluation to be more objective and fair. The Company runs Evaluation Committee to prevent biased evaluation by a few and objection program from which the evaluated can be precisely aware of his/her evaluation results and accept it.

Fair Compensation

KT&G runs a fair compensation system based on value of each job and performance. Job grade is classified by degree of complexity and competency level is match based on job skill level by grade to determine wage based on job function. Individual incentive rate is set based on work performance of the previous year, which is then used to calculate performance payment for an improvement in the compensation structure. Basic wage of university graduate new employees in 2021 is set at 181% of minimum wage by the law.

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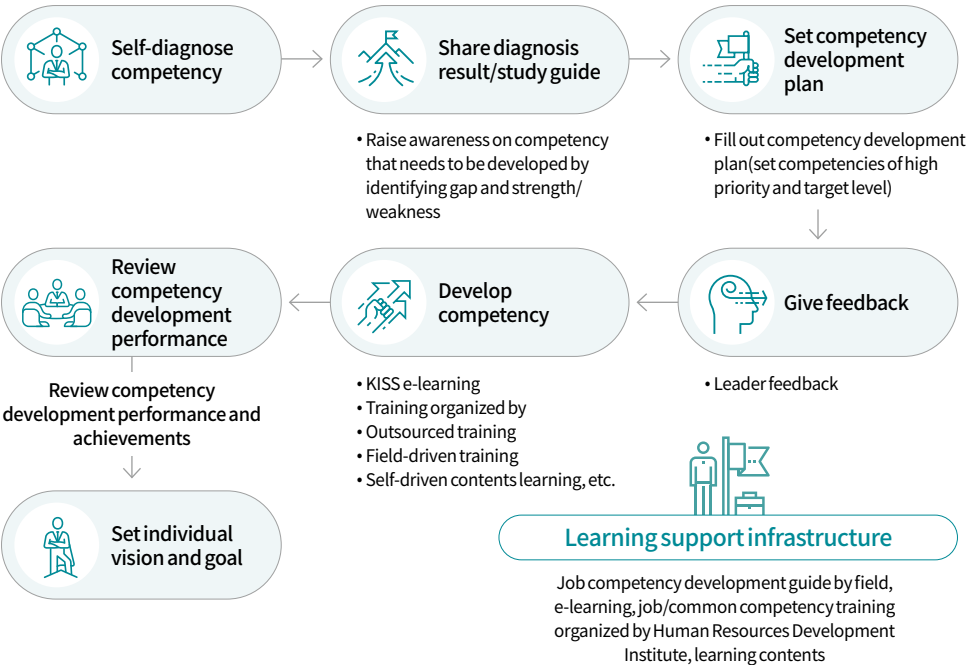
Deeper Engagement via Customized Training to Executives and Employees

In today’s rapidly changing business environment, competency development of executives and employees is a requisite for sharpening competitiveness of a business and becoming sustainable. In a bid to focus on cultivating future talents to drive KT&G’s group vision ‘Global Company’, the Company is bolstering competency-based training system aimed at developing leaders steering organizational growth and job specialists pushing change and innovation. To this end, KT&G provides customized training programs tailored to the company through HR trend monitoring, company-wide HRD diagnosis and the survey on the needs of training, KT&G’s business and management environment, and connectivity analysis with HRM strategy. KT&G also encourages executives and employees to be part of competency-building training to grow into global leaders armed with job expertise and performance delivered by communicating and collaborating with co-workers.

Training system

KT&G training is divided into common training, leadership training and job training. Common training, which includes KT&G Way training and common job competency training, allows executives and employees to learn more about organizational values and build basic competency needed to do his/her job. Leadership training is based on R&R(Role and Responsibility) by hierarchy with the goal to bolster leadership competency and cultivate future leaders. Job training offers customized courses by area and diverse learning contents with the goal to strengthen job expertise. KT&G runs a well-designed program aimed at developing leadership competency and job expertise with a good balance. Online/offline, outsourced training, regular e-learning, micro-learning and other formats are flexibly introduced for stronger learning impact aligned with the characteristics and meet the objective. Competency diagnosis tool by job to strengthen executives’ and employees’ self-driven competency is provided and diagnosis results serve as the basis to design competency development roadmap and implement learning process.

[Self-driven Competency Development Process]



Leadership Training

KT&G is building a global leadership model based on its position to flexibly respond to different organizational cultures in other regions and countries and to train people who can actively respond to changes in the global business environment in KT&G’s unique corporate culture. In addition, we are building a two-way leadership model that enables the communication between leaders and members and a business-oriented leadership system. KT&G shares organization’s vision and business strategies to new employees including experienced employees to help them settle into a new work environment and improve understanding of the new role and work upon promotion. All these represent our efforts to grow together with executives and employees. In 2021 leadership training, 520 or 12.2% of the workforce participated in the training course for 13,769 hours.

Job Training

KT&G provides job competency development guide to each HQ in order to clearly define competency required for job based on which to set and execute job training in an organized manner. Human Resources Development Institute develops and provides advanced training programs in collaboration with HQs, which serves as the basics for each HQ to implement training in their organization. In particular, global master cultivation program including language training to foster experts driving global business is in the planning stage. In 2021, 8.3%(cumulative basis) of executives and employees took part in 55,390 hours of job training both online and offline.

Core Value Training

Training on KT&G Way, which is the corporate value structure, and core values are provided by grade. Training courses for new employees focus on internalizing and acting on core values. Training to rebuild awareness on core values is provided to all executives, employees and the newly promoted.

Business Management Training

KT&G runs training courses to improve planning skills of KT&G Group executives and employees. This training course consists of two stages, basic and advanced, and any employee of the group company can participate. The employees can plan work and issue-related strategies based on KT&G’s management strategy, learn business strategy trends, and obtain insight while learning global companies’ business strategies.

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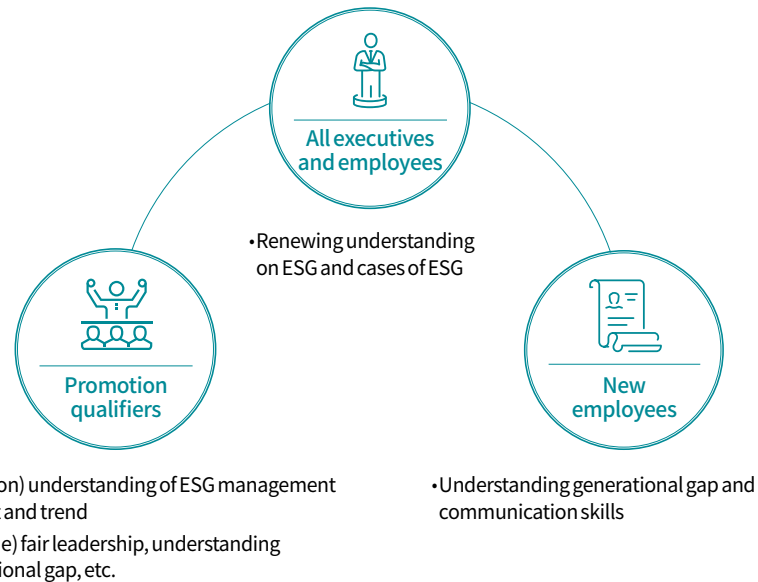
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Understanding of ESG management

KT&G develops and implements ESG training courses for all executives and employees in order to enhance their mindset on ESG, which is growing in importance. Training on understanding generational gap and communication skills for better communication with Millennials and Gen Z is also provided. In doing so, executives and employees develop a better understanding of ESG management in its essence and improve sustainability of a business by building a society around 'humans', 'future' and 'happiness'.



Support to Strengthen Competency

KT&G put in place a rich variety of programs to help executives and employees voluntarily strengthen their competency in an independent place. Regular e-learning has around 1,200 courses ranging from e-learning to book reading and phone English conversation where anyone can apply up to two courses a month. We aid executives and employees in building their working-level competency by constantly providing job training contents customized to the Company.

Deeper Engagement to Training

KT&G's new training system KISS* introduced during the COVID-19 pandemic ensures stable and consistent training in whatever environment executives and employees are in. KISS lets everyone take training courses as per their needs and level anytime, anywhere. In 2022, the Company will introduce two-way interactive hybrid training system enabling offline, online and hybrid training, thereby promote greater communication between trainees and enhance their engagement.

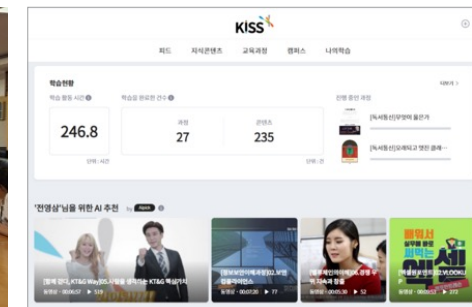
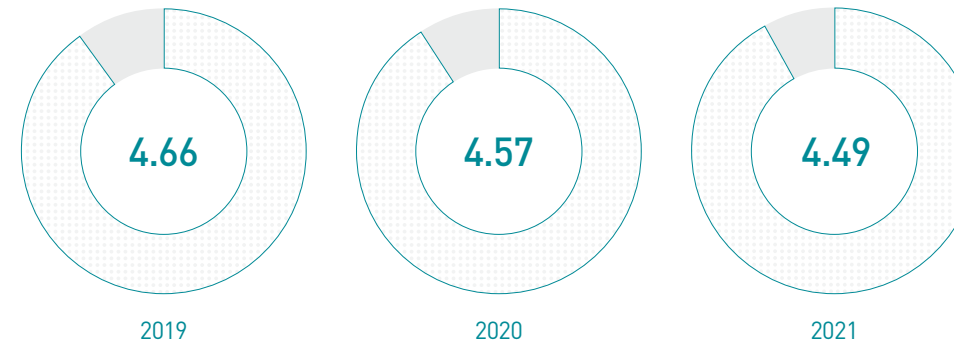
*KISS: in-house e-learning platform

Training Satisfaction Level

KT&G runs a survey on training satisfaction every year and the feedback is used to make improvements in our training programs.

Survey results

(Score 0~5)



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SAFETY AND HEALTH IN WORKPLACE

Safety Management at Worksite

Safety & Health Management Guidelines and Goals

KT&G sets the accident rate goal for the safety of all employees and stakeholders and strives to achieve the target. While the government's incident rate index is based on occupational incidents, the Company's three-year average incident rate includes minor incidents and near miss that is not defined as occupational incidents. Upholding safety and health management as our goal, the Company makes efforts to achieve the lowest level of incident rate among peers in five years and cut incident rate by 22% every year. At the same time, we set zero serious incidents as the goal as a countermeasure to issues arising from the enforcement of Serious Accident Punishment Act and accordingly push ourselves to reduce incidents and prevent management risks.



KT&G Safety and Health Management Policy

Deeply recognizing the fact that safety and health is the basic element of business management, KT&G has internalized management system around safety and health and preserves health and happiness of everyone at KT&G through constant improvement and preventive activities. In addition, we pledge and act on the following safety and health guidelines in order to jump into A Leading Global Company by maximizing value of KT&G and its executives and employees.

1



We provide a safe and pleasant work environment to all executives, employees and stakeholders, thereby strive to prevent safety incidents and hazard to health.

2



We establish and faithfully observe internal regulations that satisfy laws, regulations related to safety and health and other requirements.

3



We provide appropriate resources to improve safety and health and promote active engagement by executives and employees by cultivating their safety mindset and ability to put it into action.

4



We engage in activities aimed at reducing risk factors and risks by evaluating impact on safety and health in advance and establishing/executing goals and action plans.



KT&G Safety and Health Management Policy



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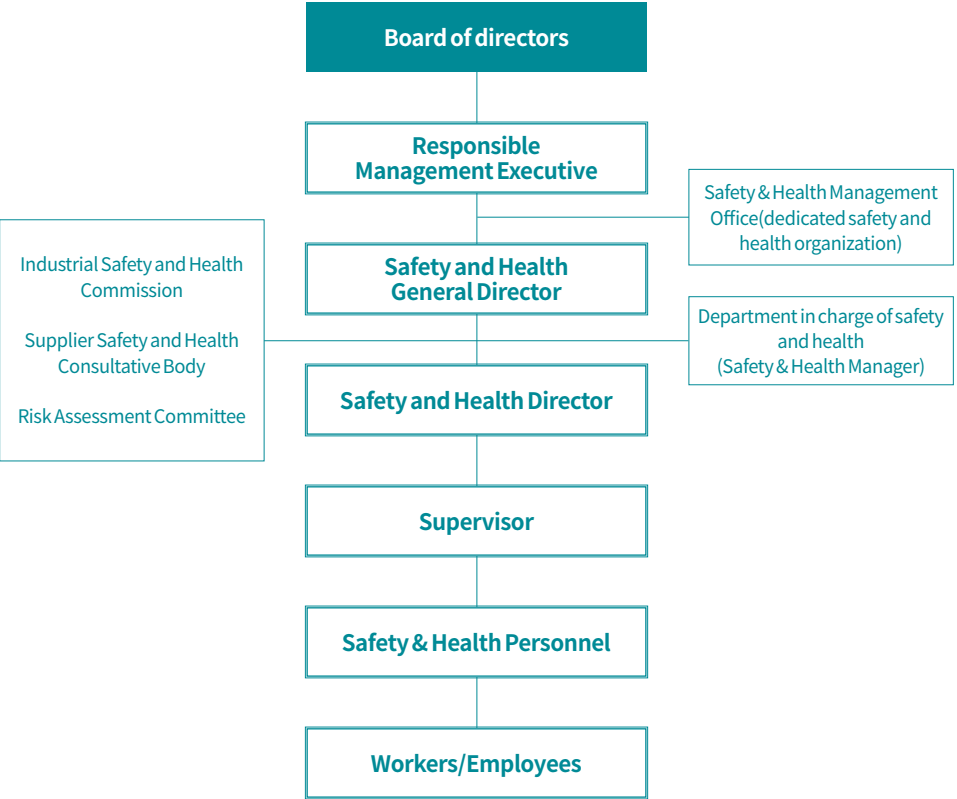


Safety & Health Management Organization and Role

KT&G reorganized its health and safety management system to strengthen its health and safety management capabilities. Accordingly, we appointed a management director(general director) who oversees safety and health-related matters and established a safety and health management system for each headquarters and institution below the management manager. In addition, the Industrial Safety and Health Team, an organization dedicated to the safety and health of the company, was expanded and reorganized to the safety and health management office under the management manager to strengthen the safety management system further. Furthermore, we are trying to enhance our expertise by hiring additional safety and health professionals at the Safety and Health Management Office, Gwangju Plant, and Gimcheon Plant. In 2022, we plan to hire 14 additional professionals. KT&G operates the Industrial Safety and Health Committee, consisting of the same number of labor and management members to listen to workers’ opinions and deliberate on significant safety and health issues.

Title	HQ at Head Office / Group	Manufacturing/Raw material plant	Regional business headquarters
Responsible Management Executive	Head of Division		
Safety and Health General Director	Head of HQ / Head of Group	Head of Plant	HQ Head
Safety and Health Director	Director of a Department	-	-
Supervisor	Director/team leader of a Department, the head of a research institute	Head/director/team leader of a Department (Partial operation of the field team leader)	영업부장, 지사/점장, 상신팀장, DPS 센터장 Director of Sales, Branch/Shop Manager, Sangsagn Team Leader, DPS Center Director
Safety & Health Manager	Safety/Health Manager(Safety & Health Management Office)	Safety/Health Manager (team in charge of safety and health)	Agency
Safety & Health Personnel	Safety Work Personnel	Safety Work Personnel	Safety Work Personnel

Occupational Safety & Health Organization Chart



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Safety & Health Risk Management

KT&G’s incident rate as of 2021 was lower than average peer as we set management guidelines that set safety and health as the top priority and managed the organization accordingly. The Company’s activities towards safety and health management of executives and employees and incident prevention activities include establishment of plan to deal with Serious Accident Punishment Act, establishment of safety and health organization, certification of safety and health management system(ISO45001), introduction of IT system for health check-up and response to COVID-19.

Safety & Health Management System Certification

KT&G commits to steadfast prevention and improvement activities by embedding safety and health management tasks in a system and quantifying related management indicators. In doing so, we enhance safety and health level of executives, employees and all stakeholders. In 2021, the Company acquired ISO45001(Safety & Health Management System) for five plants(Sintanjin, Youngjoo, Gwangju, Cheonan, Gimcheon). We plan re-certification in 2022 to improve safety and health level in our worksites on a continuous basis.

Plan to Introduce Safety & Health IT System

KT&G will build a central control system via safety and health IT system. By utilizing a central network on safety(hazard assessment, work permit, etc.), health(MSDS control, health data of executives and employees, etc.) and chemicals control, we will operate an advanced system of checking Company-wide status on safety and health, thereby better respond to related risks.

Separate from this, the Company will introduce IT system on health checkup in order to help executives and employees better monitor their health after check-up results are out and improve their convenience. The IT system will support real-time reservation, manage check-up records and follow up with health management, thereby improve the overall health of executives and employees.

Plans to Inspect Firefighting Equipment(fire hydrant, extinguisher) by Awarding QR Code

KT&G will introduce firefighting equipment inspection system utilizing QR code so that the equipment is better maintained and conditioned, and more capable of initial fire extinguishment. Accordingly, the Company will assign QR code to each firefighting equipment and utilize QR code upon inspection to go through the checklist. Areas of improvements will be identified, followed through and firefighting equipment maintained in good operating status as part of KT&G’s intensive plans to preventing fire.

Stronger Risk Response

System to Lower Risks at Field

Safety & Health Management Office organized to implement safety and health management guidelines in 2021 keeps potential business risks to minimum by reinforcing field inspection, giving guidance and advice on various matters related to safety and health and reviewing new issues in advance such as revision/enforcement of related laws and regulations. At the same time, the Company works to improve safety management response capabilities at worksite by adding specialists on safety and health management in high-risk worksites.

Worksite Hazard Assessment

KT&G identifies/assesses/improve hazardous risk factors based on its own hazard assessment standards. In 2021, the Company revised assessment standards that varied from one worksite to the other to be uniform and set forth a central standard for Company-wide hazard assessment. We plan to shorten hazard assessment cycle from the mandatory yearly basis to half-year basis to focus further on preventing any miss in hazardous risk factors. In order to enhance effectiveness in identifying hazardous risk factors, the Company requires each team to be responsible for identifying and monitoring risks, and established an assessment team where supervisor(team leader, etc.) and employees’ role is clearly defined so as to make the assessment more effective. Through year-round assessment, the Company supports risk prediction activities associated with newly building or modifying incident-prone processes, machinery/facilities/structures, etc.

Safety & Health Training to Executives and Employees

In order to embed occupational health and safety education, we regularly carry out safety and health training for our employees and implement additional safety and health training when hiring new employees and changing duties. The Company also trains superiors and others subject to special training as required by law, which is a more differentiated training by target. Training subjects are segmented in detail such as MSDS(Material Safety Data Sheet), firefighting training and also customized by manufacturing/marketing and other job types.

In 2021, the Company performed online training for COVID-19 prevention and all executives and employees subject to regular occupational safety and health training completed the course.

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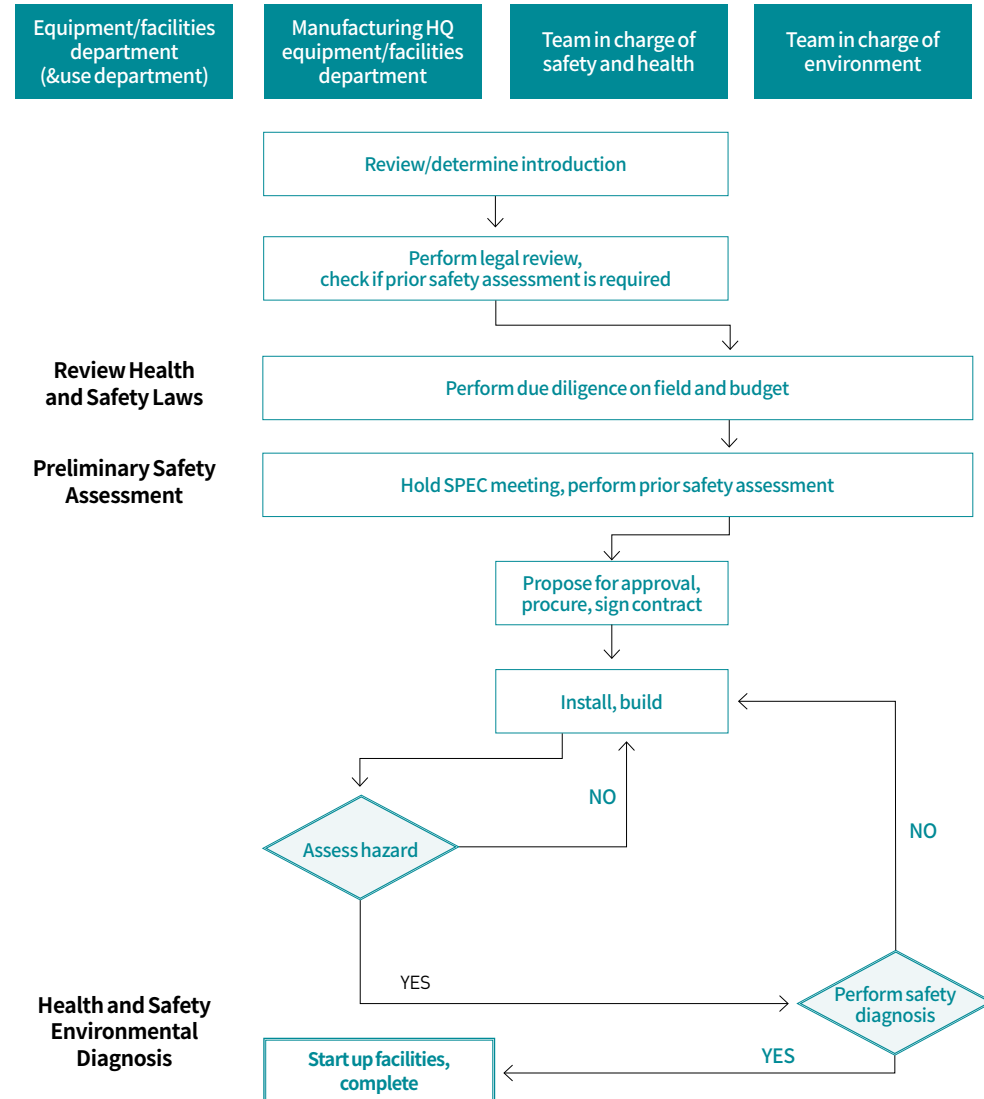
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Plan for Introducing Prior Safety & Health Review System

KT&G will perform safety diagnosis by checking compliance with related laws on safety, health and environment and checking installation of safety equipment before introducing or modifying architecture or facilities. By doing so, we will introduce a prior assessment system to ensure safety is secured before operation.



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Health and Safety Activities and outcomes

Major Safety & Health Activities

Operation of Emergency Response System

KT&G runs an emergency response system, which includes emergency planning and scenario to be able to deal with work-related emergency such as fire and blackout and natural disasters including flood and typhoon, thereby ensure safety of worksite, executives and employees. To keep loss of life and property to minimum, we run a drill as part of the effort to bolster our emergency response capabilities. We also have disaster recovery manual for each scenario across worksites to ensure swift recovery upon a disaster.

Category	Type	Key Control Points
Work-related emergency	Fire	<ul style="list-style-type: none">• Prevent leak of hazardous substance• Put out fire with speed upon leak of hazardous substance• Recover with speed after fire is under control
	Fire in the nearby region	<ul style="list-style-type: none">• Observe development in the spread of fire and extinguish
	Explosion	<ul style="list-style-type: none">• Prevent various disaster risks such as fire and quickly respond in case it breaks out
	Chemical leak	<ul style="list-style-type: none">• Establish emergency planning against leak of chemical substance
	Power blackout	<ul style="list-style-type: none">• Establish emergency planning against blackout
	Emergency situation related to manufacturing plant	<ul style="list-style-type: none">• Take quick measures as per the situation• Collaborate with related organizations
	Human disaster	<ul style="list-style-type: none">• Rescue, Emergency Medical Services, and Evacuation
Natural disaster	Flood	<ul style="list-style-type: none">• Check drainage• Communicate situation via emergency network• Establish measures against short circuit• Move vehicles, hazardous substance containers to elevated place• Set measures for gas valve lock and complete extinguishing of boiler• Set measures against inundation of real estate
	Typhoon, earthquake	<ul style="list-style-type: none">• Set measures related to flood• Set measures against disasters caused by wind
	Earthquake	<ul style="list-style-type: none">• Establish primary measure against collapse of building and facilities• Set measures against secondary damage caused by primary damage of earthquake

Serious Accident Management

In order to counter Serious Accident Punishment Act, KT&G established individual response plan for the 14 items that have been segmented as required by the law. Accordingly, 14 items are classified into PDCA(Plan, Do, Check, Action) cycle. Furthermore, KT&G keeps improving it with a regular self-diagnosis that includes half-year check of each item and report to the responsible management officer.

PDCA cycle

Plan(4 items)	Do(7 items)	Check(2 items)	Action(1 item)
<ul style="list-style-type: none">• Set management guidelines and goal• Form dedicated organization• Assess risk• Set and execute budget	<ul style="list-style-type: none">• Support legally required workforce• Train• Allocate special manpower• Listen to voices of workers• Secure third parties' safety• Respond to urgent risks• Prevent disaster recurrence	<ul style="list-style-type: none">• Check mandatory execution• Diagnose related laws and regulations	<ul style="list-style-type: none">• Execute corrective measures, orders

KT&G introduced hazard assessment guidelines in order to continuously eliminate and control confirmed hazardous factors, thereby prevent serious accidents by workers, which is the fundamental objective of Serious Accident Prevention Act. In addition, the Company established an organization and runs manpower dedicated to supporting safety and health measures on the ground, as well as secured a separate safety and health budget. To manage third parties including recipients, we run a system to listen to voices of others and safety assessment system, thus secure safety of the entire workforce. Going forward, KT&G will keep diagnosing related laws and regulations, monitor our compliance and prevent risks and serious accidents based on our strong safety and health management system.

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Health Management of Executives and Employees

Operation of Healthcare Room

KT&G runs an in-house healthcare room where health manager(nurse) is permanently stationed for health check-up, consulting, first aid, health training and work environment improvement. healthcare room has mandatory equipment and devices as required by Occupational Safety & Health Act to ensure safety and health of all executives and employees. Also, it has over-the-counter drugs and emergency medicines for employees' convenience.

Health Check-up Support

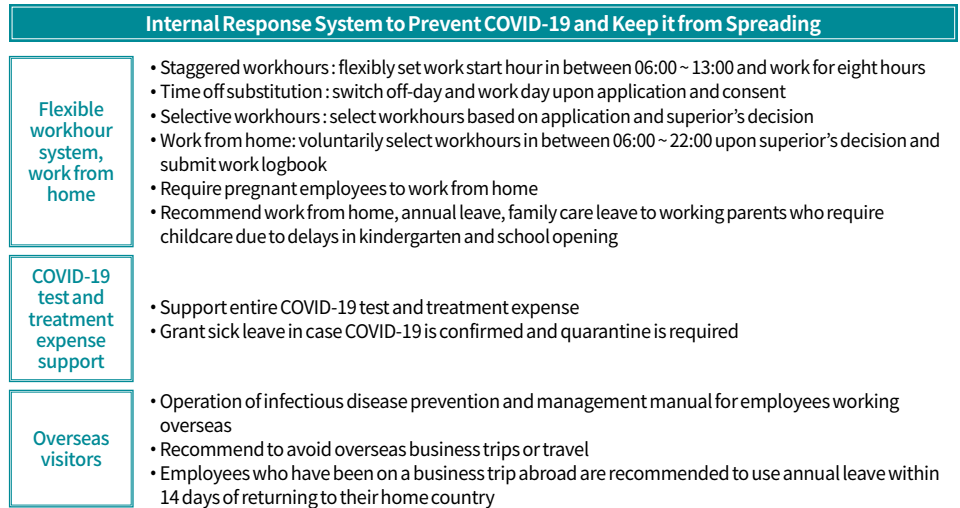
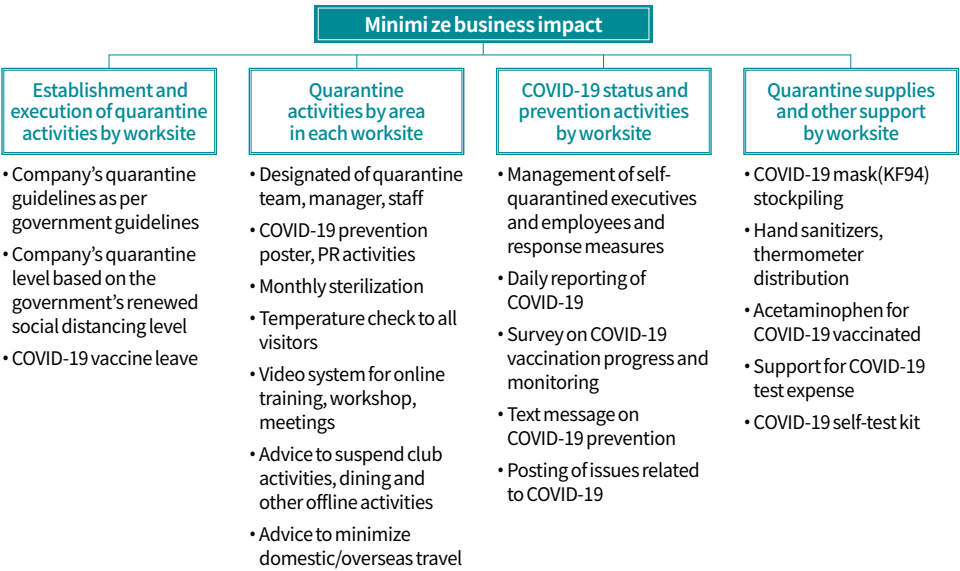
KT&G supports annual health check-up to executives and employees as per the Company's welfare policy on top of the medical check-up required by Occupational Safety & Health Act. Special check-up is provided to employees exposed to hazardous factors(noise, night work, hazardous substances, etc.) among field employees in each plant and R&D HQ for safety and health management of executives and employees. Individual check-up results are analyzed based on which diet, exercise, prevention of occupational disease are trained and disease or symptoms found are subject to intensive monitoring.

Health Promotion Program

KT&G regularly surveys lifestyle habits and health conditions of executives and employees, which is a risk factor for cardiocerebrovascular disease. Survey results are used to predict possibility of developing cardiocerebrovascular disease use as reference for personal counseling and monitoring of executives and employees who may develop high blood pressure and occupational disease as a preventive action. The Company also regular surveys muscular skeletal risk factors and use results to improve work environment conducive to related diseases.

COVID-19 Business Contingency Plan

KT&G set flexible COVID-19 response standards and manual reflecting the government's COVID-19 guidelines based on quarantine level. We designated 15 quarantine managers by each HQ. Infected of those suspected of infection are required to go under self-quarantine and work from home, and updates related to newly confirmed cases in the Company are communicated via in-house EIP board. Quarantine supplies distribution, sterilization, support for test expense, separation from others to minimize contact in worksite and other measures are taken to put high-risk worksites under control.



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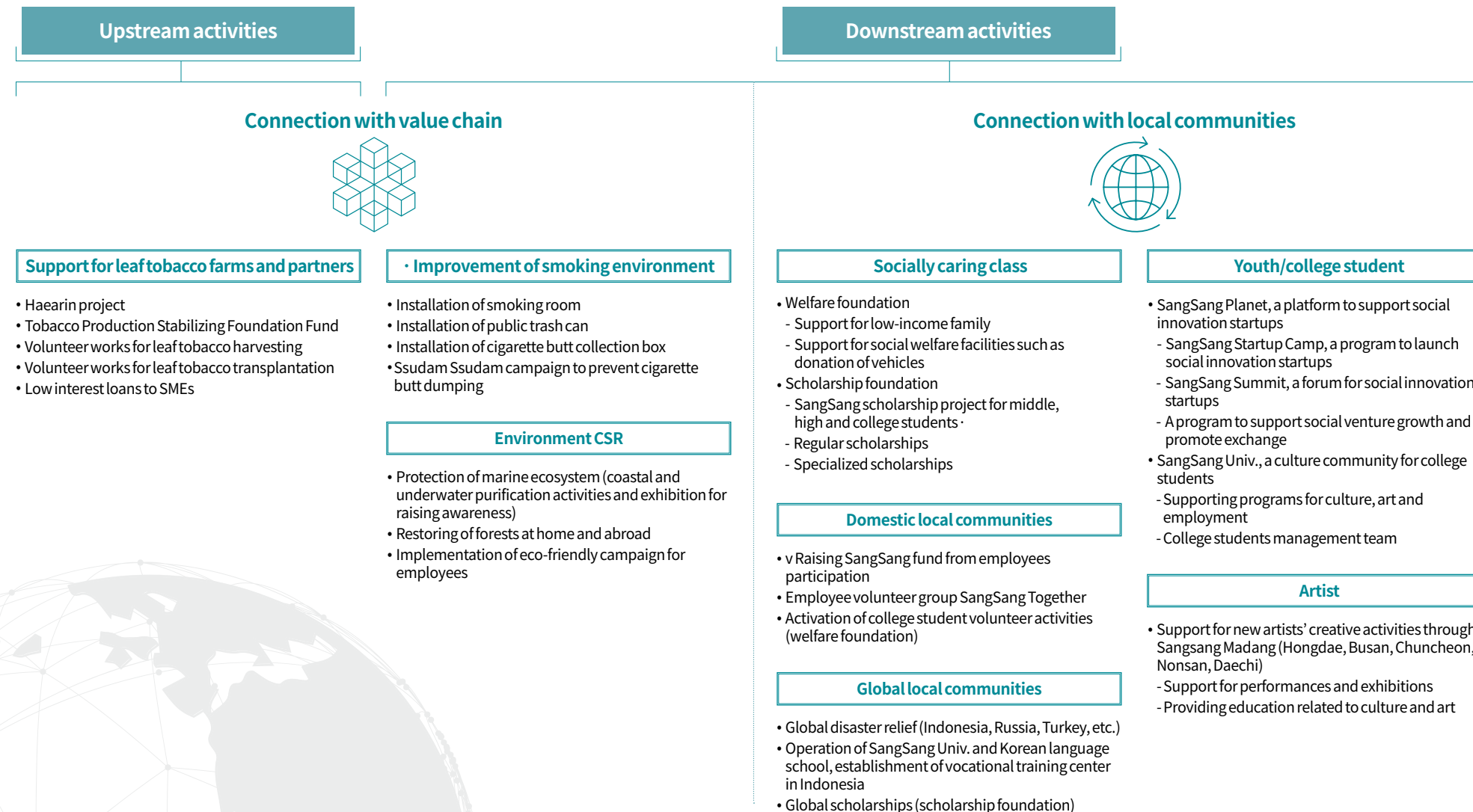
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SOCIAL CONTRIBUTION

Value chain of social contribution

KT&G plans and operates various social contribution programs for the company's and society's sustainable development and for creating shared values. Under cooperation with each relevant department led by the Social Contribution Office, an organization dedicated to win-win cooperation, we conducted value chain-related and social contribution activities that contribute to local communities through KT&G's dedicated platform. We strive to create a society where everyone is happy and engaged in various activities, including social responsibility activities related to the business by supporting leaf tobacco farms, social welfare, supporting youth entrepreneurship, sponsoring culture and arts, and environmental CSR activities such as purification of the marine environment and restoring forests.



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Case #1 : Ssudam Ssudam campaign and improvement of smoking environment

KT&G has run the Ssudam Ssudam campaign to participate in the movement of resolving global environmental pollution caused by cigarette butt dumping. ‘Ssudam Ssudam’ is a campaign with a catchy expression of ‘Ssudam Ssudam’ for “throw cigarette butts in trash cans.” as its slogan. It has been carried out since 2020 based on the idea of ‘the SangSang Realization Committee,’ a corporate culture improvement organization composed of young employees.

KT&G applied the pictogram of Ssudam Ssudam to over 70 types of tobacco products sold in Korea to raise awareness of consumers starting from May 2021. The campaign posters were posted on about 46,000 branches of convenience stores in Korea, aiming to take the lead in environmental protection by improving the awareness of smokers and encouraging them to practice smoking etiquette. About 1,200 vehicles are on the road, with the campaign slogans attached.

In addition, we are striving to build infrastructures, such as the installation of smoking rooms and cigarette butt collection boxes to prevent illegal garbage dumping. We installed 65 smoking rooms were installed mainly in transportation facilities such as airports and train stations in 2021 and have installed a total of 425 smoking rooms cumulatively. Furthermore, we carried out a pilot project and installed 147 units of cigarette butts collection boxes in six major cities, including Seoul, Busan, etc., to solve the illegal dumping of cigarette butts more actively. Based on its activities in 2021, KT&G plans to propel various projects in 2022 to aggressively solve environmental problems, such as installing cigarette butts collection boxes nationwide and distributing portable ashtrays.



Ssudam Ssudam campaign



Smoking Environment Enhancement Project



Cigarette butt bins

Our Performance

Creating Social Value

Installation of smoking room

Total **425** units(cumulative)

Total support amount **6.41** billion(cumulative)

Installation of cigarette butt collection box

Total **147** boxes

Adding more than 1,000 butt bins in 2022

Application and attachment of Ssudam Ssudam campaign posters

Installed to **46,000** branches of
convenience stores in Korea

Attached to **1,200** business vehicles

Case #2 : Environmental CSR for protecting the Earth

Marine environment protection project

Globally, the threat of destructing marine ecosystems due to plastic waste is increasing, and KT&G is actively participating in the movement to solve environmental issues. KT&G carried out a marine ecosystem protection project for biodiversity recovery in 2021 with the Korea Marine Environment Management Corporation and OSEAN. Two hundred sixty employees volunteered and collected around seven tons of waste in the beach cleaning activity in Busan and Gyeongnam. Professional divers collected 100kg of marine wastes in purifying water activity. A junk art exhibition was also held at Sang Sang Madang in Busan, which attracted 1,500 tourists and discussed environmental issues.

Building forest at home and abroad

KT&G's employees promoted local win-win projects to reduce carbon in domestic and overseas countries by participating in ESG management policies. To this end, using the Sang Sang Fund, our employees built a total of KRW 210 million worth of forest.

We created 'KT&G Forest No.1' for carbon neutrality on Daegwallyeong national forest trail. One thousand seedlings have been planted at the KT&G forest spanning 1.5 hectares, equivalent to about 16,000 square feet by the first half of 2022. The employees participated in 'Plogging' to pick up trash while running and built a forest by saving one tree per person to secure seedlings necessary for a forest. KT&G contributed to carbon neutrality and raised environmental protection awareness among employees by building the forest in Daegwallyeong connected with the second stage of the eco-friendly campaign, 'Feel Green.'

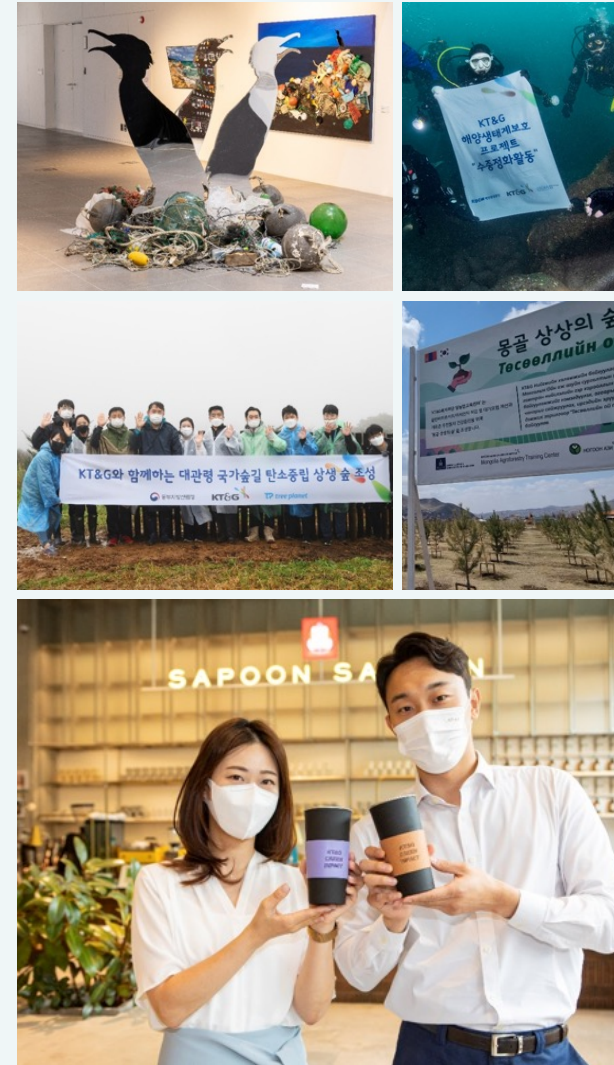
In addition, KT&G created 'SangSang Forest' (imaginary forest) in Mongolia, the country struggling with desertification. The SangSang forest (imaginary forest), consisting of pine trees, is a self-supported urban forest spanning 1 hectare, located near to Mongolian-Korean Friendship Park' established by the Korea Forest Service, with the participation of 500 residents. In October, the ceremony of unveiling the 'SangSang Forest (Imaginary Forest)' signboard and planting ceremony was held with the participation of the head of the Forest Policy Bureau of the Mongolian Ministry of Environment. President Khürelsükh of Mongolia and the minister of Environment visited the site. They sent great support for this project, which has a similar direction to the one billion Tree Movement (planting one tree for one Household) led by the Mongolian government.

'Feel (必) Green' environmental campaign participative to employees

KT&G held a participative campaign called Feel Green Campaign 2021 to form a consensus on 'KT&G GREEN IMPACT,' medium and long-term environmental vision of KT&G, and to join environment protection activities. The Feel Green campaign has three stages that 'must' be implemented and help the employee feel the change for eco-friendliness.

The first activity was to use reusable containers to reduce waste generated in daily life. Next, our employees spread environmental concerns by picking up garbage around the company as plogging activity. Lastly, we made an upcycling pouch and sold it at the in-house bazaar, drawing interest in eco-friendly products. Notably, we made an upcycling pouch from waste banners collected from KT&G organizations across the country. We donated all the proceeds from the sale to the Korea Environmental Education Center, adding to its significance.

About 1,900 KT&G members and their families participated in the Feel Green campaign. KT&G carried out participatory environmental campaigns for its employees to join the activities in an easy and fun way in their daily lives, which enabled them to feel the importance of eco-friendliness and encouraged them to keep participating in environmental protection activities in the future.



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CUSTOMER RELATIONSHIP MANAGEMENT

Customer Communication

Communication channel

We operate the lil website for introducing and promoting lil brands, the lil minimalium (lil flagship shop) and lil store (online mall) for product information and purchases, and the C/S center and A/S center for customer inquiries and complaints. We also opened a new lil Kakao Channel and an online customer service center in the second half of 2020 with efforts to meet various needs and enhance customer satisfaction.



Classification		Role	Number of Place	
			2020	2021
CS Center (Call Center)		General consultation, claim registration and information on processing channels	1	1
Online	Website	Introduction to lil brand, products, and channels	1	1
	Online customer service center	Self-check on lil, chat consultation, 1:1 inquiry, FAQ	1	1
	Kakao channel	Brand introduction and information about promotions	1	1
	lil store	Online sale of lil brand	1	1
Offline	lil minimulium	Product consultation and purchase, A/S	8	4
	A/S centers	Product repair and exchange, smoking quality consultation, Delivery A/S	17	25
	lil station	Product consulting and A/S reception	98	100
	Visiting A/S	Product exchange and smoking quality consultation	121	119
Total			249	253



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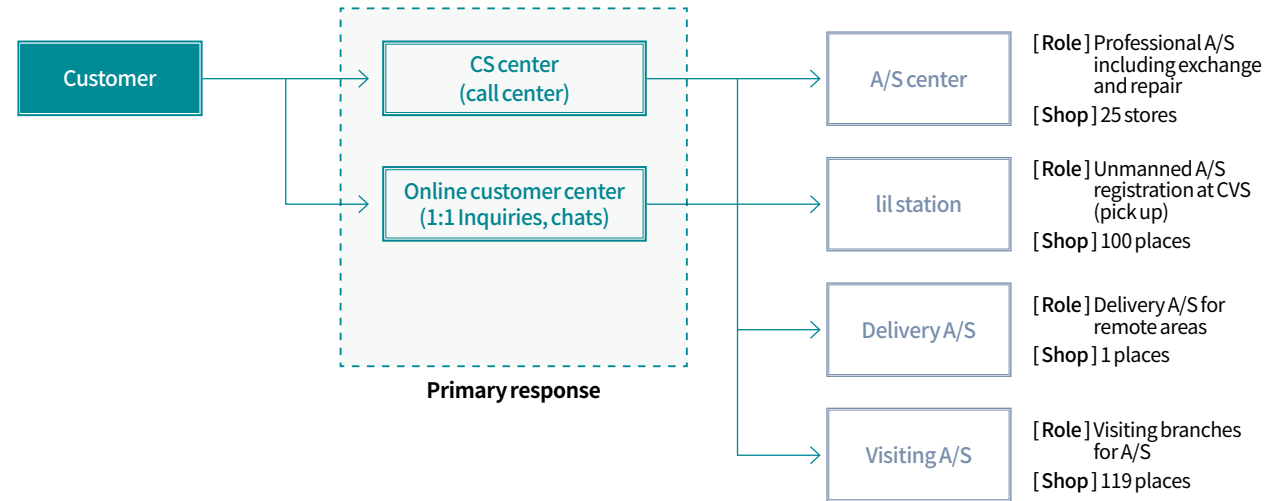
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VOC Management Process

Our CS and online customer service center (1:1 inquiry, chat, etc.) primarily deal with general customer inquiries and consulting services. For repairs of lil products that are not solved with the primary response, we recommend that customers visit A/S centers and the lil Station to solve the issue in person. Through delivery and visiting A/S, customers can resolve issues with lil products and avoid any unnecessary visits.



VOC Registration Status

KT&G receives and manages Voice of Customers (VOC) by type utilizing various channels. We reflect some of our customers' opinions on product development and business activities to enhance product competitiveness, and follow-up measures are taken to strengthen customer satisfaction for the matters that need improvement. Furthermore, we are making every effort to improve the accessibility and convenience of our customers by introducing a new search engine (FAQ) and chats and segmentizing ARS services.

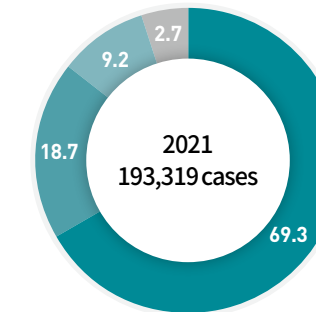
VOC Registration by Channels

(Unit: %)

Type	2020	2021
Phone	82.9	69.3
ARS	11.9	18.7
1:1 Inquiry	4.6	9.2
Chat consultation	0.5	2.7

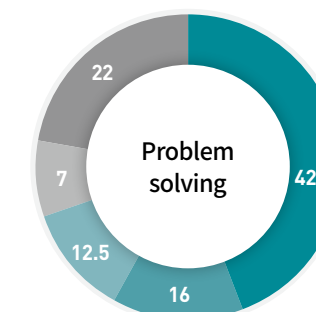
VOC reception channel

- Phone
- ARS
- 1:1 counseling
- Chatting counseling



Survey on counseling satisfaction for VOC

- Very satisfied
- Satisfied
- Normal
- Dissatisfied
- Very dissatisfied



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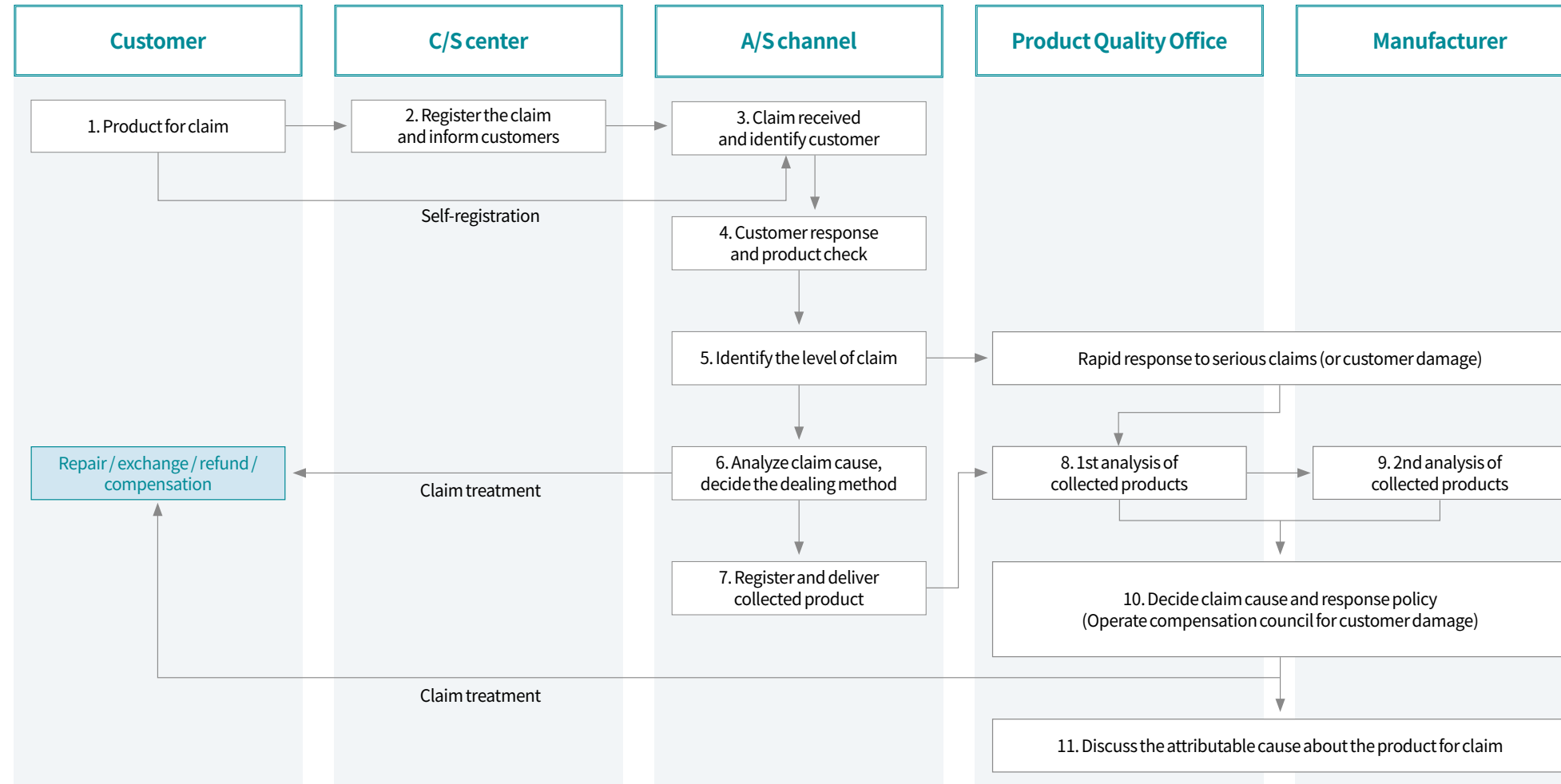
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Compensation for Customer Damage Claims

KT&G complies with consumer damage compensation procedures for products and services. We first identify the damage claim content and product when received through A/S channels. And depending on the level of urgency and importance, we determine the dealing method after discussion with the relevant department.



Consumer Damage Compensation Council

For customer claims, depending on the content, we cooperate with the relevant departments to find the response strategies and make sure the same issue doesn't repeat in the future by reflecting the feedback in the product and service system. Offices of Public Relations, Finance, and Product Quality, and Legal Matters form a response committee and strategically establish response solutions through an accurate understanding of the issue, discussion of legal responses and the amount of compensation, analysis of causes, and feedbacks.

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Enhancing Customer Satisfaction
Customer Satisfaction Management Infrastructure

Online Customer Center
KT&G strives not only to enhance customer satisfaction but also to embrace customers’ voices and feedback and to improve service quality. To this end, we are operating online customer centers and Kakao Channels.
Online customer centers provide lil products self-check and FAQs support customers to solve simple issues on their own, ultimately reducing the wait time for customers. Also, for customers with hearing disabilities and who do not favor phone calls, we have customer chat services and 1:1 inquiry board. Also, KT&G opened the Kakao Channel offering increased access and convenience, another effort to enhance customer satisfaction and to establish infrastructure.

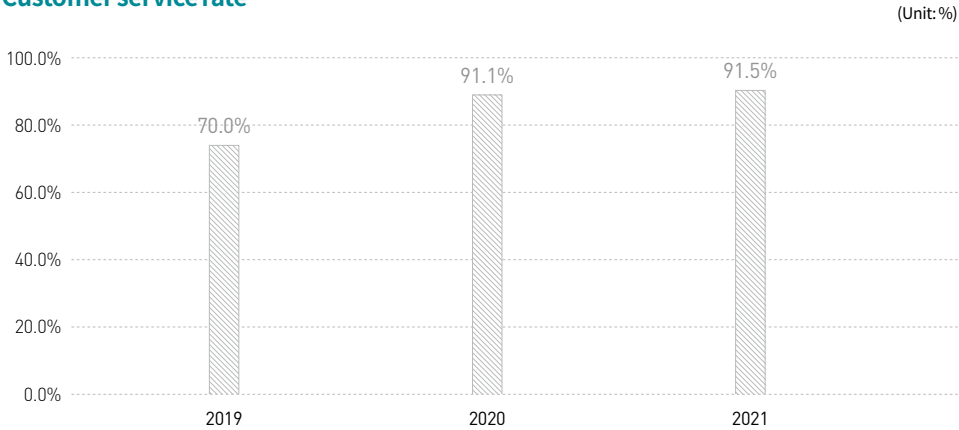
Customer Service Representatives Capacity Building and Customer Satisfaction Survey

With the increased number of customer inquiries, we have strengthened our customer response capabilities by hiring more customer service representatives and adopting an ARS system. Accordingly, the response rate to incoming calls has been over 90%. Furthermore, we have been conducting surveys on customers who have experienced our products and services to increase the quality of customer services and their satisfaction. KT&G endeavors to provide a better service experience to customers with improvement based on the answers of our customers. Consequently, the total scores of KT&G’s customer satisfaction increase every year, and we will not spare any effort to satisfy our customers.

Trade-in Services

As part of the customer satisfaction program, we have operated a trade-in program where customers can purchase new products at a discounted price when they return their old lil products since 2018. We also give guidance on how to use the product and provide cleaning services to customers who visit lil Flag Shops and A/S Center.

Customer service rate



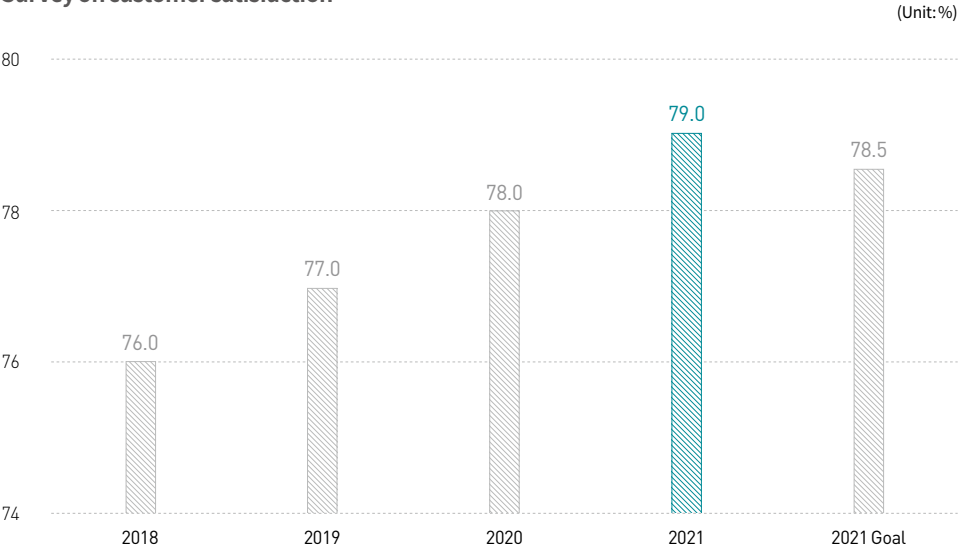
Customer Satisfaction Management Performance

NGP Business HQ, R&D HQ, and Manufacturing HQ at KT&G strive to improve product quality and enhance customer satisfaction through organic cooperation. As a result, KT&G was awarded the Brand of the Year Grand Prize in the cigarette-type e-cigarette category by the Korea Consumers’ Forum and the Brand Hall of Fame by the Institute for Industrial Policy Studies(IPS) for 4 consecutive years.

Customer Satisfaction Performance Results

Date	Award	Institution	Remark
Jan 2022	2022 Korea Brand Hall of Fame	Institute for Industrial Policy Studies (IPS)	4 consecutive years
Sep 2021	2021 Brand of the Year Grand Prize	Korea Customers’ Forum	4 consecutive years
Feb 2019	IF Design Award Prize	IF Design Award	lil HYBRID and lil MINI

Survey on customer satisfaction



Source: NCSI(National Customer Satisfaction Index)

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Customer Privacy Protection
Privacy Policy

KT&G strictly complies with the domestic personal information protection laws such as the “Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.” and the “Personal Information Protection Act” and acquired the international standard information security (ISO 27001) and the certification of Personal Information & Information Security Management System (ISMS-P). We have also established the “Guidelines for Internal Management of Personal Information” and disclosed them on KT&G’s Legal Information System ([https:// klis.ktng.com/](https://klis.ktng.com/)) for all employees. Furthermore, the information on the collection, retention, use, and destruction of personal information acquired by KT&G is disclosed via the Privacy Policy (<https://www.ktng.com/privacyNew>) to enable the subject of the information to easily view the status of personal information management at any time. Against the backdrop, KT&G earned the 2022 Business Continuity Management System(ISO22301), advancing our risk management abilities.

Personal information protection management system

KT&G has established the Corporate Secret Protection Committee as the highest body to govern data security and personal information protection. The committee has designated the Chief Security Officer (CSO) and the Chief Information Security Officer (CISO), who oversees data protection to strengthen the data protection system. CISO oversees the general security of important data, including personal information and information management, and develops an agenda.

The committee reviews data protection topics, such as annual security review, certification, and new system establishment, and deliberates and determines action plans for them. After the committee’s deliberation, significant issues are reported to the Chief Operation Officer (COO) and the Sustainability Committee under the board of directors to respond to the data-related risks systematically.

Strengthening Personal Information Protection Capabilities

KT&G has identified cybercrime and personal information leakage as major risks and has established information security regulations and operating guidelines, and infringement cases response manuals. We have stipulated reporting systems and response procedures for each incident type to ensure the incident doesn’t proceed to a more dangerous level. Furthermore, we are creating and distributing contents to increase awareness and practice of privacy related compliance levels, while increasing the company’s privacy protection capabilities through regular employee trainings. If any of the executives or employees violates privacy protection related regulations, we impose disciplinary actions in accordance with the Human Rights Management Regulations. In addition, we have built an information protection system and operate a security control center at all times to prevent personal information-related breaches such as external intrusions and internal leaks. As a result of systematic response to privacy security in all company activities, there has been no incident related to customer information leakages for the past 11 years.

Information Security Division and Responsibilities

- **Chief Information Security Officer (CISO) :**
Head of Information Security Office
- **Training**
 - Security Vulnerability Check (annually) and Security Level Review (regularly)
 - Infringement incidents simulation training to prevent cyber attacks (annually)
 - Infringement incidents simulation training to prevent cyber attacks (annually)
 - Information security compliance level check (annually)
- **Education**
 - Information security education for all employees (annually)
 - Secured coding education on commissioned developers (maintenance) (annually)
 - Specialized education on information security for commissioned agencies (regularly)
 - Information security education for newly hired (experienced) employees (regularly)
- **Monitoring**
 - Security control system 24/7 operation to detect and respond to real-time security threats
 - Monitor, analyze and manage abnormal activities within the company
- **Campaign**
 - Information security self-check (quarterly)
 - Contents production and distribution to enhance employees’ awareness of information security (quarterly)
- **Subsidiary Companies’ Information Security and Security Policy**
 - Guidelines for subsidiaries’ security regulations
 - Examine the legal compliance level (yearly)
 - Check subsidiary security vulnerability(yearly)

Operation of Data Security Control System



01

24/7 Real-time Security Control Tower Operation & Detect, Prevent and Respond to Security Threats



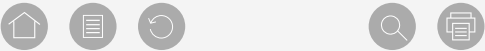
02

Run SOC (Security Operation Center) Composed of Experts



03

Registered at Cyberthreats Information Sharing System (C-TAS, Cyber Threat Analysis & Sharing) and Information Application



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- Sustainability in the Supply Chain
- Human Rights Management
- Diversity and Inclusivity
- Attraction of Talents and Capacity Building
- Safety and Health in Workplace
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Advancing Governance and Strengthening Execution Capability

Strengthening governance system and regulating ‘KT&G group Code of Conduct’

KT&G introduced the ‘Board Skills Matrix’, a BOD valuation indicator that discloses expertise and capabilities of BOD to strengthen the advanced governance system. It enables work capabilities to be evaluated and identified as a matrix form in diverse ways, strengthening transparent business.

Moreover, we set forth the group-wide ‘KT&G Code of Conduct’ to respond to the growing importance of ESG management and the gradual expansion of our global business. We will make efforts to enhance the risk management capabilities through consistent education and inspection.

Introduced

Board Skills Matrix
to strengthen the governance system.

Regulated the

*‘KT&G Group Code
of Conduct’*

Regulated

*KT&G Management
System*

Strengthening

ESG KPI
for All Group Companies

Conducted

*Compliance
Officer system*
in global workplace

CORPORATE GOVERNANCE

Sound Corporate Governance

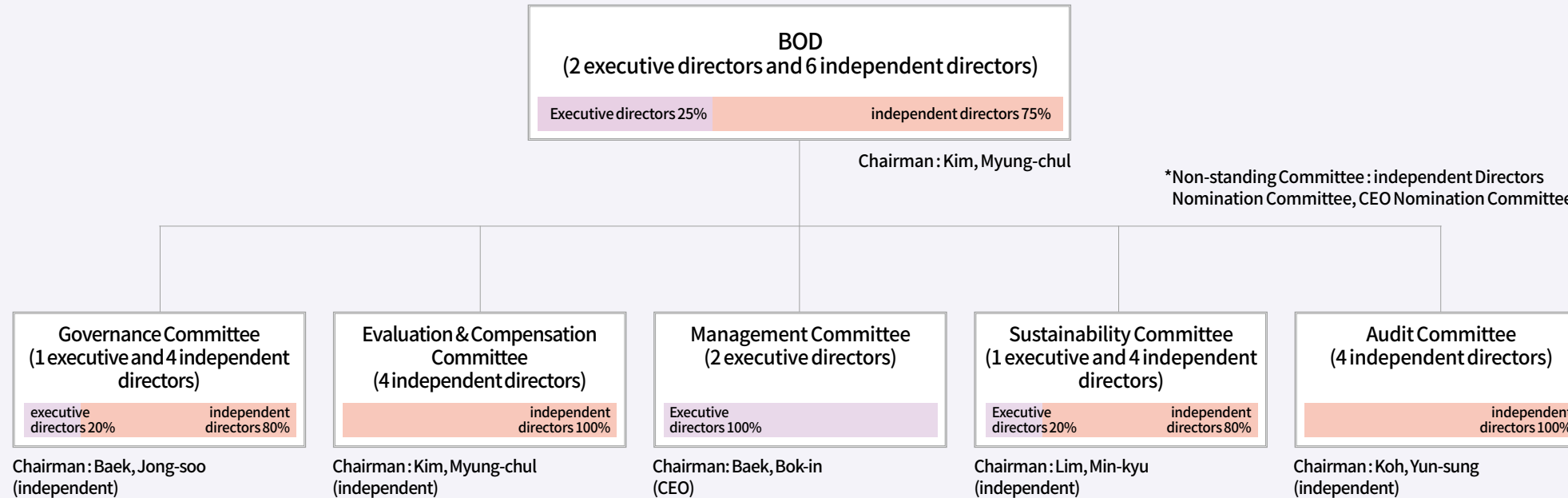
Board Composition

KT&G has 75 % of independent (independent) directors to make sure that directors make independent decisions and perform management inspections with checks and balances. As of April 2022, the Board of Directors comprises eight directors: two executive and six independent directors. We have established the roles of each director to ensure utilizing their knowledge and practical experiences such as finance, accounting, supply chain, risk management, manufacturing, global, legal, and ESG strategy. Within the Board, there are five standing committees: the Governance committee, Evaluation, and Compensation Committee, Management committee, Sustainability Committee, and Audit Committee, as well as non-standing committees such as the independent Directors Nomination Committee and the CEO Nomination Committee. In addition, we appointed female independent directors in 2016 to respect expertise and diversity regardless of gender, race, national, or ethnic background.

[Corporate Governance Report](#)
[Corporate Governance Charter](#)
[Articles of Incorporation / BOD Rule](#)

BOD organization

*As of April 19 2022, Standing Committee



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Operation of Board of Directors

The Board of Directors, the permanent decision-making body, deliberates and decides on pending issues, including significant management goals such as mid and long-term strategies and business plans, and basic management policies for the company and interested parties. In particular, KT&G conducted the ‘Governance Advancement Project’ to enhance the role and functions of the Board of Directors including the sub-committees to fully commit to the original role. In 2022, KT&G newly established the Sustainability Committee to take lead in ESG management and contribute to create new values enhancing sustainable corporate values.

Operation of Board of Directors and Teams Dedicated to Assisting BOD

KT&G articulates authorities, responsibilities, and operation procedures in Article 34 of Articles of Incorporation and Article 9 of Board of Directors Regulations. Board meetings are convened on a regular and irregular basis. KT&G shares materials with directors regarding the floated agenda before Board of Directors meetings and holds briefing sessions as necessary, ensuring that directors have in-depth and efficient discussions. In 2021, there were 13 meetings: 11 regular and 2 irregular meetings, which shows a 98% attendance rate. Furthermore, KT&G is operating the BOD supporting department to convene Board of Directors meetings and share the agenda and corporate information, thus operating the Board of Directors efficiently. In addition, we respond to work performance requests and provide support for related training, seminars, and compliance.

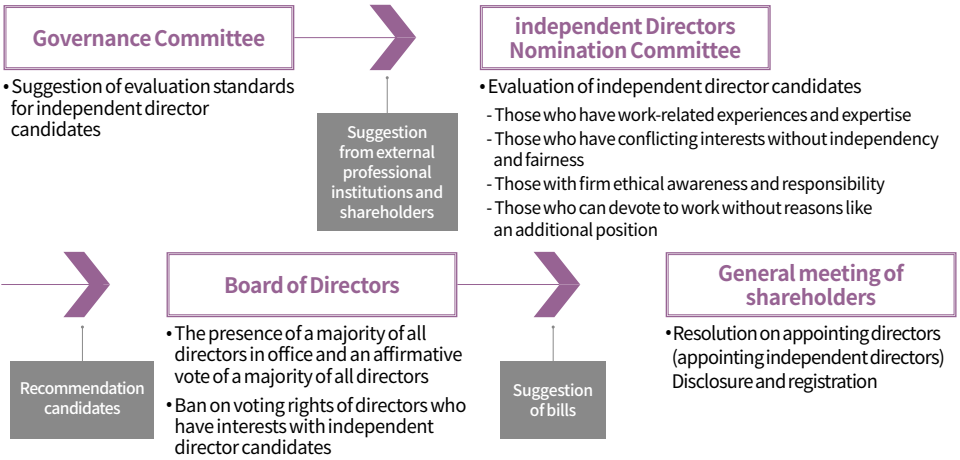
Process of Appointing CEO and independent directors

KT&G further systemized the CEO appointment process through the ‘Governance Advancement’ project promoted in 2019. The company enacted and amended the establishment and operation of the CEO succession plan and the CEO candidate nurturing program by the newly established Governance Committee. Through this, the decision-making authority related to the CEO succession policy was delegated to the Governance Committee, and the CEO candidate verification process was strengthened from 2steps(CEO Nomination Committee - Board of Directors) into 3steps(Governance Committee - CEO Nomination Committee - Board of Directors). In addition, KT&G is not confined to ensuring independence and transparency in recommending candidates, and the newly appointed CEO makes a ‘management contract’ with CEO Nomination Committee, allowing the newly appointed CEO to carry out responsible management through management evaluation every year. By Article 542-8 of the Commercial Act, the independent Directors Nomination Committee recommends independent candidates by going through a fair and transparent process. The independent Directors Nomination Committee recommends the most qualified candidates by exploring candidates in external professional institutions and evaluating candidates suggested by shareholders following the independent Directors Nomination evaluation standards, which Governance Committee suggests. The company specifies the qualifications for independent directors as ‘independent individuals with professional knowledge and experiences on the economy, management, law, or relevant technology without disqualifications in relevant regulations.’

Status of Board of Directors activities

Classification	Date	Major agenda
1	2021.01.26	CEO Nomination Committee composition
2	2021.01.28	Evaluation standards for CEO candidates
3	2021.02.04	Approval of 34 balance sheet, Statement of Appropriation of Retained Earnings for the 34th Fiscal Year, Business Report, Internal Accounting Control System Operation Status Evaluation Report
4	2021.02.09	Appointment results of CEO candidates, independent Directors Nomination Committee composition
5	2021.03.02	Decision on CEO basic salary, Revision on executive director salary regulation
6	2021.03.04	Decision on remuneration limits for directors, Approval of executive director candidates
7	2021.03.04	Evaluation results of internal accounting control system operation status, Evaluation results of compliance inspection and effectiveness, Audit Committee member candidate recommendation, 34th regular general meeting of shareholders
8	2021.04.13	Appointment of chairman of BOD, Appointment of sub-committee members and chairman of BOD, 2021 safety and health management plan, Plan for transfer of Cheonan plant, Establishment of mid-long-term strategy for ESG environment field
9	2021.05.12	Settlement of first quarter of 2021 for the 34th fiscal year, forth and fifth payment of Starfield Suwon capital, Exhibition plan for Cheongna Medical Complex Town, Appointment of compliance supporting employee
10	2021.05.12	Revision on independent director salary regulation
11	2021.08.05	semi-annual settlement of accounts for the 35th Fiscal Year (2021)
12	2021.11.04	Settlement of third quarter of 2021 for the 35th fiscal year, Deposit extension on loan fund for KT&G-IBK growth cooperation, mid-long-term plan for returning shareholders, Acquirement of treasury stock
13	2021.12.14	PFV establishment for Cheongna Medical Complex development and Capital payment, Mutual Cooperation Fund, Evaluation plan for BOD activities in 2021, Response status of DOJ document submission order, Temporary suspension on U.S. cigarette, Business plan for 2022, Budget plan in 2022

independent director appointment process



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Board Committees

KT&G articulates expertise and capabilities on KT&G Board Skills Matrix to strengthen the advanced Governance System from 2022 and operates committees in the Board of Directors to improve the profession and efficiency of work performance. Furthermore, a majority of directors are independent directors in each committee, excluding the management committee comprised of executive directors, to strengthen the committee’s independence and carry out management monitoring, regulating those independent directors carry out the chairman. In addition, non-standing Committees, including independent Directors Nomination Committee and CEO Nomination Committee, are operated when needed.

BOD Composition

Classifi- cation	Name	Gende r(Age)	Position	Appointing year	Expected completion date	Transaction with companies, relationship with the biggest shareholder or major shareholders	Sub-committee	Expertise	Career
Executive director	Baek, Bok-in	Male(58)	CEO (President), KT&G	2015	2024 General meeting of shareholders	Not related	Management Committee	Management specialist	(Current) CEO (President), KT&G Chief of Production HQ / Chief of Strategy HQ (Vice President), KT&G Chief of Strategy HQ, KT&G Chief of Marketing HQ, KT&G
Executive director	Bang, Gyeong- man	Male(52)	COO (Senior Executive Vice President), KT&G	2021	2024 General meeting of shareholders	Not related	Governance Committee, Management Committee, Sustainability Committee	Management specialist	(Current) COO (Senior Executive Vice President), KT&G CBO (Vice President), KT&G Chief of Strategy HQ / Chief of Global HQ, KT&G Chief of Global HQ, KT&G
independent director	Kim, Myung- chul	Male(67)	Chairman of the Board of Directors	2020	2023 General meeting of shareholders	Not related	Governance Committee, Evaluation and Compensation Committee, Audit Committee	Global/ Finance	· (Current) SEE (Space Entertainment Enterprise) Advisor · CFO (Vice President), u.Life Solutions · President, Shinhan Bank of America · CFO (Managing Director), Shinhan Financial Group
	Baek, Jong-soo	Male(63)	Chairman of Governance Committee	2018	2024 General meeting of shareholders	Not related	Governance Committee, Sustainability CommitteeAudit Committee	Legal (Lawyer)	(Current) Partner Lawyer, DongIn Law Group · Legal advisor, Korea Housing and Urban Guarantee Co., Ltd. · Prosecutor, Busan Prosecutors’ Office · Tax/Legal Advisor, Seoul National Tax Service
	Koh, Yun-sung	Male(50)	Chairman of Audit Committee	2020	2023 General meeting of shareholders	Not related	Evaluation and Compensation Committee, Sustainability CommitteeAudit Committee	Finance/ Accounting	(Current) Professor, Hankuk University of Foreign Studies · Director, the Korean Accounting Association · Director, the Korea Tax Association
	Lim, Min-kyu	Male(68)	Chairman of Sustainability Committee	2021	2024 General meeting of shareholders	Not related	Governance Committee, Evaluation and Compensation Committee, Sustainability Committee	Global/ESG	· CEO (President), SK Materials · CEO (President), OCI Materials · Vice President, Samsung C&T Petrochemical Business Division
	shon Kwan-soo	Male(63)	-	2022	2025 General meeting of shareholders	Not related	Sustainability CommitteeAudit Committee	Logistics	· (Current) President, Korea Automobile Racing Association · Full-time advisor, CJ Logistics · Co-CEO, CJ Logistics · Director, CJ Human Resources
	Lee, Ji-hee	Female(62)	-	2022	2025 General meeting of shareholders	Not related	Governance Committee, Evaluation and Compensation Committee	Marketing	· (Current) CEO of W Camp · CEO, W Works · Adjunct Professor, Department of Advertising, Chung-Ang University · Co-CEO, Post Visual

• As of 2021, the average incumbency of Board of Directors in KT&G is 2.1 years and independent directors cannot work for more than 6 years according to Korea’s Commercial Act (Article 34-5 of Commercial Act).
• Directors are not allowed to hold an additional position according to Article 542-8 of Commercial Act and Article 34 of enforcement ordinance of the same Act.

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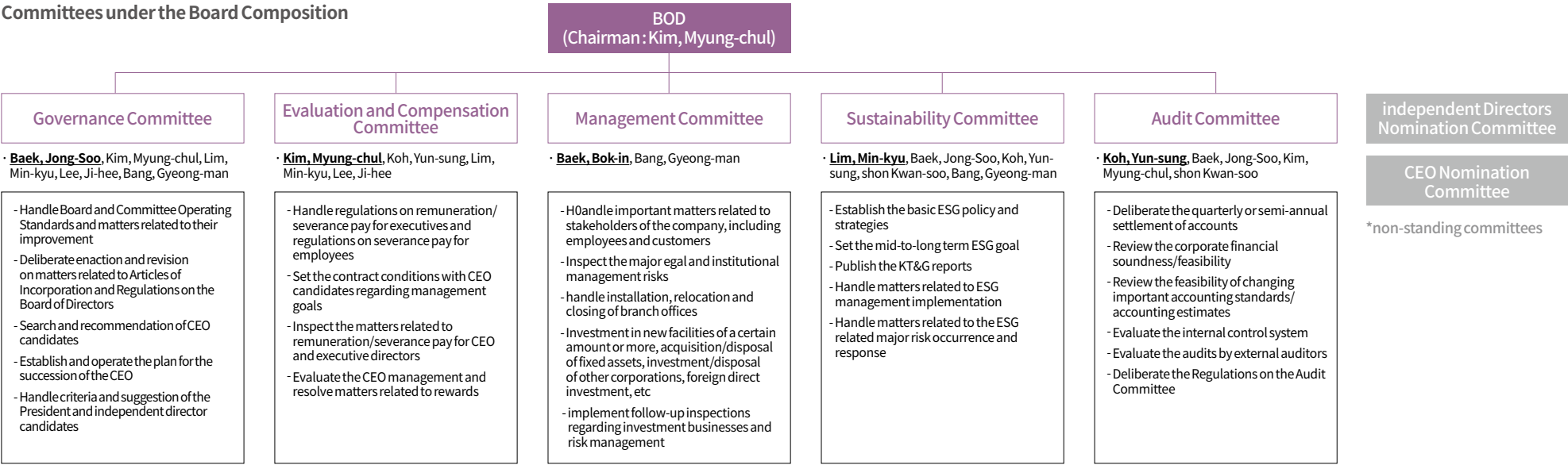
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Committees under the Board Composition



Independence and Expertise of Board of Directors

Independence of Board of Directors

‘Independent Board of Directors’ is the basis for BOD operation. The company appoints independent directors who are qualified as a transparent and independent person to protect the interested parties as well as shareholders, keeping executives in check. In 2010, KT&G established an objective and independent governance system where representative director and chairman of Board of Directors are separated in terms of their roles through regulations on the Board of Directors, which stipulates that a chairman shall be appointed from the independent independent directors by a resolution of the Board of Directors.

A majority of members of sub-committees under BOD consist of independent directors except the management committee. In particular, all the Audit Committee and Evaluation and Compensation Committee members are comprised of independent directors to keep executives in check.

In appointing independent directors, we select candidates through an independent professional institution, search firms, and double check the independence through company evaluation and outside professional institutions. In addition, while preparing the bill introduction at the general meeting of shareholders, the ‘independent director qualification certificate’ is checked with the candidates themselves to appoint directors who are free of interests with the company.

Principles on BOD independence

KT&G appoints persons whose independence has been verified in accordance with relevant laws and regulations such as Article 382 and Article 542-8 of the Commercial Act, Article 33 of the Articles of Incorporation and Article 2.2 of the Corporate Governance Charter as outside directors, The representative standards are as follows.

- ① A person who is not an employee of KT&G or has not been an employee of KT&G within the last two years
- ② A person who is not an employee of an affiliated company of KT&G or was not an employee of the affiliated company within the last three years
- ③ A person who is not spouse of the director of KT&G and is not a direct ancestor or descendant
- ④ A person who is not a lawyer, certified public accountant, tax accountant, etc. who conducts an accounting audit or tax representation for KT&G or enters into an advisory contract with KT&G for legal advice, management advice, etc
- ⑤ A person who is not an employee of a corporation that has an advisory contract or a technical partnership contract with KT&G.
- ⑥ A person who are not executives or employees making a single transaction contract worth of more than 10% of total revenues with KT&G among recent fiscal years
- ⑦ A person who have not been executives or employee of companies with more than 10% of transaction sum of the company's total assets and revenues with KT&G among for the past three years
- ⑧ A person who is not an employee of an accounting firm appointed as an auditor of KT&G
- ⑨ Any other person who is not an employee of a corporation that has important interests, such as a transaction relationship with KT&G

Expertise of Board of Directors

When appointing directors to promote the company’s sustainable development, KT&G selects experts with expertise and practical experience in various fields such as management, finance, accounting, manufacturing, supply chain, risk management, global, legal, and ESG strategy as candidates, and appoints them to enhance the professionalism of the BOD.

In addition, we operate a balanced BOD that is not biased against specific backgrounds and occupations so that BOD members can discuss agendas from multiple perspectives and make rational decisions.

The department in charge of the BOD provides training opportunities to strengthen professionalism through acquiring knowledge and skills necessary for business performance and supports human and material resources so that the BOD can make the best decisions, such as holding seminars. In addition, for new directors, we provide data on the overall management status of the company and operate a site visit program for business sites.

2021 Board of Directors Training Status

Education Date	Target	Attendee	Content
2021.03.22	KT&G	Lim, Min-kyu	Understanding of KT&G
2021.06.02	KT&G	Lim, Min-kyu	Status of Global talents cultivation program
2021. 06. 15	KT&G	Lim, Min-kyu	Status of Shintanjin Plant (KT&G) and Korea Ginseng Plant (KGC)
2021.06.15	KT&G	Koh, Yun-sung	Role and future operation direction of real asset business
2021.07. 27	KT&G	Youn, Hai-su, Baek, Jong-soo, Kim, Myung-Chul	Mid-long-term growth strategy plan of KGC
2021.07.29	KT&G	Koh, Yun-sung , Lim, Min-kyu	Mid-long-term growth strategy plan of KGC
2021. 08. 02	KT&G	Lee, Eun-kyung	Mid-long-term growth strategy plan of KGC
2021.09. 29	KT&G	All directors	ding issues of the company (publication of KT&G report))

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Evaluation and Compensation

Evaluation and Compensation Committee resolves regulation on management assessment and compensation of the president and regulation on remuneration and severance pay for executive officers and severance pay for employees. In addition, the Evaluation and Compensation Committee determines CEO candidate management contracts such as management goal setting and inspects and adjusts quantitative and non-quantitative indexes. KT&G Evaluation and Compensation Committee comprises independent directors for the fair management assessment and supports fair compensation by evaluating executive directors yearly. In 2021, the committee was held five times and made resolutions on the CEO's short-term and long-term management assessment and reported results regarding the CEO's assessment and the compensation institution's improvement project. On the other hand, the Board of directors and each committee utilize the assessment results by evaluating the performance by year to improve and compensate for the operation of committees.

Evaluation item		Points(out of 5)
Role and responsibility of the BOD (4.87 points)	Fair and faithful performance of duties for the benefit of the company and all shareholders	4.88
	Review of major strategies and financial goals, etc. and continuous observation of the degree of achievement	4.63
	Active participation in the management evaluation and compensation	4.63
	Supervision and checks on the management	4.50
	Understanding corporate ethical and social responsibility and reflecting decision-making	4.88
Efficiency of the BOD operation (4.83 points)	Frequency and regularity of BOD meetings	4.88
	Adequacy of the composition of the board of directors	4.63
	Fidelity of materials provided by the Board of Directors	5.00
	Fidelity in the preparation and implementation of the rules for the operation of the board of directors	5.00
	Adequacy of training and support for new directors	4.63
Committees under the BOD (4.63 points)	Expertise in committee composition and proportion of independent directors	4.75
	Appropriateness of committee operation method	4.75
	External expert support for the committee	4.38

*Mutual evaluation of independent directors (out of 5) is not disclosed for fear of hindering objectivity.

independent (Independent) Director Evaluation and Compensation

KT&G evaluates independent directors at the end of each year by Article 34(6) of the articles of incorporation and Article 17 of the Board of Directors Regulations to operate the board of directors and improve corporate governance efficiently. The evaluation items are composed mainly of the role and responsibility of the board of directors, operation efficiency of the board of directors, committees within the board of directors, and mutual evaluation of independent directors. Questions are divided into the evaluation questions evaluated on a 5-point scale for each item and listening to opinions through content technology. Wages for independent directors are set in consideration of that in the same industry, rival companies, or businesses with similar asset sizes. Wages are approved in shareholders' meetings and paid not to exceed the cap for the approved amount. Board of Directors sets specific amount, or method of payment. Wage paid to independent directors comprises actual costs such as duty allowance and traveling expenses. They are paid in connection with independent directors' performance to ensure that the wage system aligns with shareholders' long-term interests.

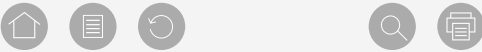
CEO Evaluation and Compensation

KT&G evaluates CEO performance against indicators for ESG management and internalization thereof to ensure top management carries out activities to generate long-term values for the company. We strive to raise the company value through ESG by tying ESG management performance with KPIs. In May 2021, As part of efforts to improve the wage system for top management, we decided to pay the CEO a certain amount of long-term bonus as stocks. We strive to maximize shareholders' value by encouraging responsible management and aligning shareholders' interests with management through the performance-based stock rewarding system. KT&G will maintain rewarding programs based on the management's best efforts and performances rather than on a unilateral rewarding system.

*KT&G operates policies to redeem and reduce bonus for matters related to negligence or major mistakes, violation of confidentiality, errors in pay.

CEO evaluation indicators that reflect ESG factors

Relative Financial Metrics	Financial Returns
• Advancement of ESG management	• ROE
• Advancement of global business	• Management of business portfolio
• Group infrastructure innovation	• Stock Price rise rate compared to peer groups



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Audit Committee

The Audit committee exceeds the criteria for “at least three or more people and more than two-thirds are determined as independent directors” as specified by the commercial law and internal regulations and consists of all non-executive directors for independence, fairness, and objectivity. In addition, two out of four members are financial or accounting experts to improve the expertise.

The audit team, an internal audit body, consists of CPA and employees with various fieldwork experiences, including sales, marketing, manufacturing, purchasing, and IT, and is directly responsible for the Audit committee’s efficient audit. They conduct the audit by the yearly audit schedule and report to the Audit Committee quarterly.

Position	Non-executive	Name	Career and qualification	Field
Chairman	○	Koh, Yun-sung	Professor in Business Administration (Accounting), Hankuk University of Foreign Studies (Mar. 2010~present) Ph.D Business Administration (Accounting), Yonsei University (Feb. 2007) Director, Korean Accounting Society and Korea Tax Association (Jan. 2010~present)	Accounting, finance
Member	○	Baek, Jong-soo	Lawyer, Dongin Law Firm (Mar. 2015 ~ present) Tax legal advisor, Seoul Regional Tax Office (Nov. 2015 ~ Oct.2016) Inspector, Busan Distrct Prosecutor’s Office (Dec. 2013 ~ Feb.2015)	-
Member	○	Kim, Myung-Chul	CFO, Shinhan Financial Group (Jul.2007~Sep.2008) Finance Director, Shinhan Bank (Mar. 2005 ~ Mar.2006) Foreign Currency Team Head, Shinhan Bank (Jul.1993~Feb.1998)	Financial institution
Member	○	shon Kwan-soo	Joint representative, CJ Logistics(Dec.2014 ~ Jan. 2019) Representative, CJ GLS (Jan.2012 ~ Oct. 2013) Vice president, CJ GLS (Jan.2010 ~ Jan. 2012)	-

Audit Committee is convened on a quarterly basis in accordance with the Article 8 of the operation regulations thereof and can be held if deemed necessary by Chair. A total of 9 Audit Committee was convened in 2021, discussing agenda such as shareholders’ meeting agenda review, internal accounting management system, business plan for Audit Committee, result of internal audit, and matters regarding external auditors, whose attendance rate was 97%.

Status of 2021 Audit Committee members training

Education date	Target	Attendee	Content
2021.03.31	KT&G	Koh, Yun-sung	Explanation on individual settlement process
2021.04.22	Audit Committee Forum	Koh, Yun-sung	Reporting of ESG-related matters and role of Audit Committee
2021.06.15	KT&G	Koh, Yun-sung	Process of consolidated internal accounting management system of KT&G
2021.08.23	KT&G	All members of Audit Committee	Reporting of progress of ERP introduction of KT&G
2021.10.14	Audit Committee Center of Samil Accounting Firm	Koh, Yun-sung	3 years after reforming Accounting system, Role changes of Audit Committee and tasks

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BUSINESS ETHICS AND COMPLIANCE

Ethical management

KT&G has established the ‘Code of Conduct’ and ‘Code of Ethics’ so that the company allows employees to be aware of business ethical awareness and suggest the standards for judging correct behavior. In addition, KT&G has encouraged employees to self-check their ethical awareness and comply with internal regulations. The Compliance Support Department was designated as our ethical management control tower. We will make our utmost efforts to establish sound business ethical culture by carrying out diverse ethical activities, including a pledge of ethical practice, an ethical practice campaign (Think Twice), ethics training, stakeholder survey, and operating channels for reporting unethical behavior.

Regulating the ‘KT&G Group Code of Conduct’



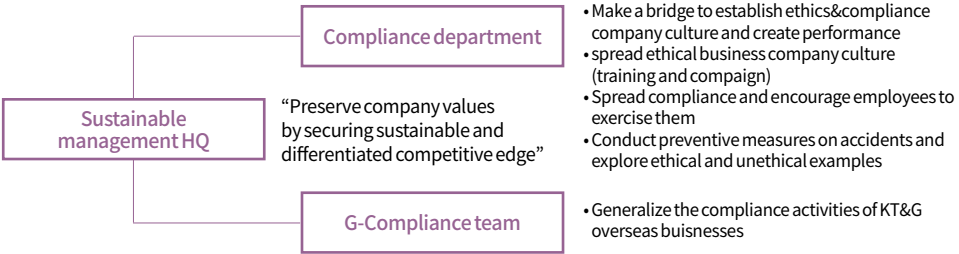
KT&G regulated a new ‘KT&G Code of Conduct’ reflecting the global-standard ethical values as the ESG business becomes more important and global businesses are expanded. A newly established ‘KT&G Code of Conduct’ is applied to KT&G and KT&G Group, including all domestic and overseas subsidiaries. The charter enables the company to suggest ethical values appropriate for market environment and implement training and inspection regarding the charter consistently, thus enhancing capabilities to manage related risks. KT&G takes into account the global-standard international ethical norms to complement the ethical values of a newly established ‘KT&G Code of Conduct’. Furthermore, the company encourages each subsidiary to establish an individual charter and introduce them so that common ethical values and a code of ethics applied to all subsidiaries, which are not confined to single subsidiary, are suggested. The charter has detailed examples in order to allow all employees to understand, staying away from a confusing form such as existing legal provisions, thus ensuring that employees make right decisions as necessary. Furthermore, we translated the ‘KT&G Code of Conduct’ into languages used in the country in which a subsidiary is present and distributed them, thus ensuring that all employees firmly establish the ethical awareness.

Ethical management system

Ethical management organization

Compliance department played a bridging role to establish ethics&compliance culture and create performance to allow employees to establish active ethical philosophy, preserving sustainable company values. In 2021, KT&G established G-Compliance team which is in charge of compliance activities of overseas businesses as the demand for global compliance activities increase with the expansion of overseas businesses.

Ethical management organization

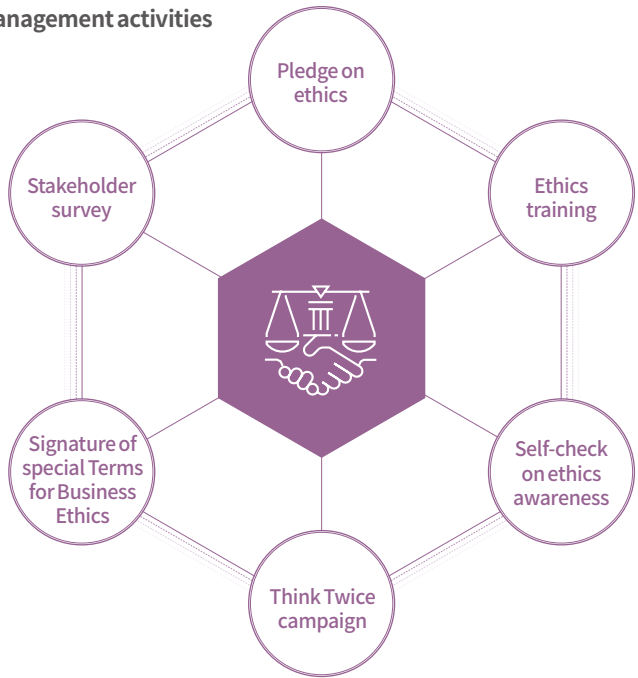


Ethical management activities

KT&G carries out regular ethical management education with topics of preventing sexual harassment, workplace harassment, and corruption for employees to internalize business ethics. In addition, KT&G encourages employees to understand ‘Ethics Regulations’, recognize goals suggested by ‘Code of Conduct’, and participate in the ethical management by an ‘ethical pledge’ every year.

In order to identify the compliance with ethical management, we ask our employees to conduct a self-check of their ethical awareness annually and carry out a campaign named ‘Think Twice’. When signing a contract with other companies, we take a lead in spreading ethical management culture in KT&G value chains by signing the ‘Special Terms of Business Ethics’ and keep monitoring fair trade and unethical behaviors of our employees through stakeholder surveys.

KT&G ethics management activities



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Guidelines on the Protection Persons Reporting Unethical Conduct

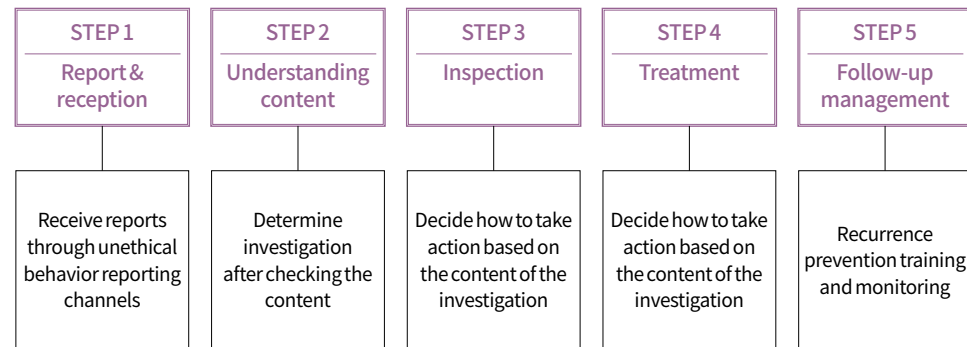
Reporting system of unethical behavior

KKT&G operates a system reporting unethical behavior to allow employees, partners and our stakeholders report harrassment in the workplace, violation of regulations, fraudulent acts. It can be reported under a real name or anonymously and operates 'Guidelines for the Protection of Reporters of Unethical Behaviors' to prevent them from revenge and disadvantages. In 2021, KT&G renovated the Guidelines and regulated the reporting and process manuals regarding unethical behaviors to build a standardized work process and enhance transparency and reliability. We will advance the level of ethical management and risk management by further strengthening the function of reporting system.

Unethical behavior handling process

When bribery, solicitation for a job position, fraudulent acts, sexual harassment and harassment in the workplace, acts of power abuse, and conspiracy through the reporting channel on our homepage, KT&G determines whether to proceed with the investigation considering the details of the report. When the reported unethical behaviors are found to be true, legal action will be taken against the relevant employee by a judicial authority, or orders for improvement will be given. The reporter will be provided with rewards according to the related regulations. In addition, After the case is dealt with, we carry out extra education and monitoring to prevent the case happening again.

Unethical behavior handling process



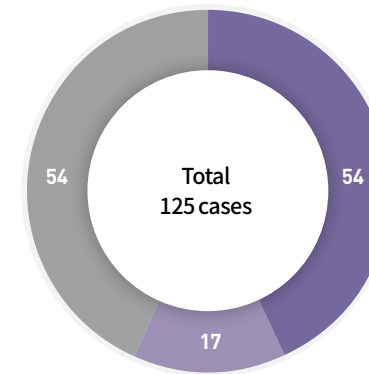
Status of reporting unethical behavior

In 2021, a total of 125 cases were received through the "reporting unethical behavior" channel. According to the report, we carried out follow-up management by taking improvement measures through the transfer of business institutions and preparing measures to prevent recurrence if necessary. In addition, in 2020, consumers and stakeholders worldwide improved access to the "reporting unethical behavior" channel, such as opening a reporting page in English. In 2021, stakeholders' confidence in reporting and compensation procedures increased. In the future, KT&G will strengthen the sense of compliance of executives and employees and practice transparent, ethical management by revitalizing the reporting system.

Channels to Report Unethical Behaviors

Reception of unethical behavior cases in 2021

- Consumer complaints
- Unethical behaviors
- Others



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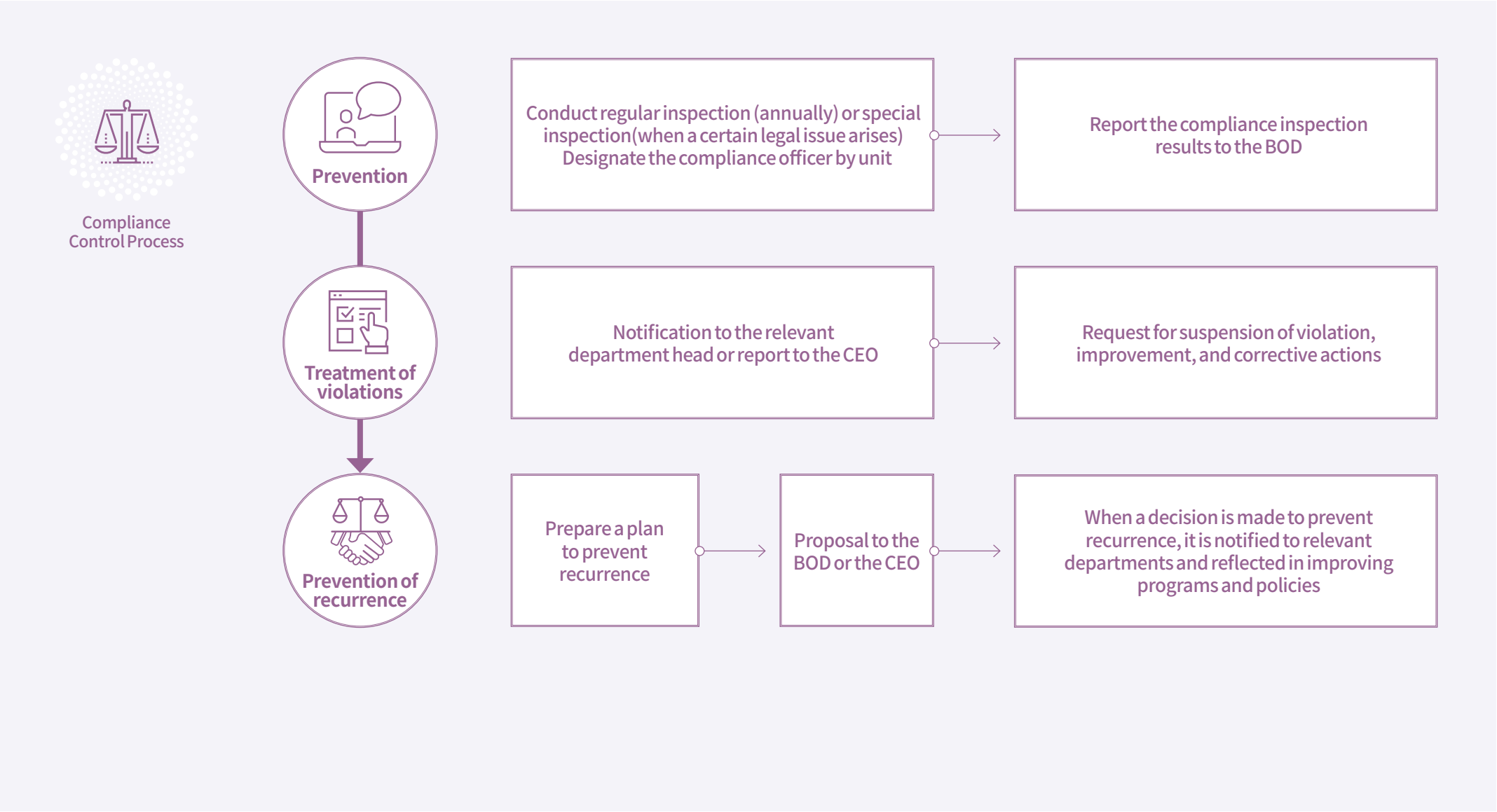
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Compliance Management

KT&G inspects the compliance of employees periodically and report the results to the Board of Directors operating the Compliance Support Department, an organization for compliance management. In addition, we established the compliance control standards, strengthened the compliance management system, and suggested the direction for activities, pursuing a fair and transparent business and securing the customer trust and the company's sound development. KT&G conducts compliance training for employees and operates the legal information system for all employees ethical compliance indicators for all institutions to enhance individual risk management capabilities in order to spread the internal compliance culture.



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Compliance Inspection

KT&G conducts a compliance inspections on the employees regarding brand advertisements, fairness in hiring, ethical awareness of employees, working conditions, resolution of BOD, compliance for managers, sales related acts, responsible marketing in accordance with the ‘Commercial Act’ and Standards for ‘Compliance Control’.

In 2021, the compliance inspection was conducted as a means of autonomous inspection by employees using a checklist for each inspection part. KT&G report the compliance inspection results and improvement plans to BOD to enhance the compliance management of KT&G.

Classification	2019	2020	2021
Target	3 headquarters (Marketing, Management support, NGP)	All headquarters (14 headquarters)	All institutions in KT&G (headquarters, business offices, plants)
Inspection target (person)	242	1,048	4,061

KT&G conducts effectiveness evaluation to identify and improve employees’ compliance with laws according to the ‘Enforcement Decree of Commercial Law’ and ‘KT&G Compliance Control Standards.’ Through regular compliance inspections in 2021, the company’s compliance support and inspection system was generally operated effectively and appropriately, and the results were reported to the board of directors.

Establishing Compliance Guidelines

KT&G established the ‘Compliance Guidelines’ to list potential legal risks that can occur during the business process and allow the employees to (self) check the legal risks and comply with related laws., updating the amended laws regularly and sharing with employees. In 2021, we made and updated the ‘Sales field Compliance Guidelines’ to prevent business problems caused by employees who order to sell tobacco and the ‘Guidelines for entrusting services in the NGP development stage’ to entrust legitimate services NGP development services, distributing them to the related institutions.

KT&G will keep complementing the Guidelines going forward and explore new topics that need management to enhance the feasibility and efficiency of work appliances.

Spreading a Culture of Compliance

Designating Compliance Officers and Operation

In 2021, KT&G established the compliance system by designating and operating the person in charge and established the responsive system to allow them to discuss the possible legal risks during the business quickly. We supports the person in charge of Compliance in each institution to allow them to conduct compliance such as spreading legal policy trends regarding its business. Going forward, KT&G will make efforts to make sure the person in charge of compliance in each institution has abilities in accordance with the management department, which can lead to expansion in autonomous compliance activities.

Operating Compliance and Ethical business Evaluation Indicators

KT&G reflects ‘Compliance’ and ‘Exercising ethical business’ on its organizational evaluation indicators, highlighting the compliance activities. Evaluation indicators enables executives and employees to enhance ethics & compliance awareness and manage compliance risks by themselves during the work, contributing to enhancing related feasibility. Based on this, we plan to focus on spreading compliance culture in the organization.

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Compliance training

KT&G enhances the compliance awarenss of employees by planning and operating compliance training sessions according to jobs and positions. In 2021, a total of 31 regular compliance training, compliance training for recruitment, and special compliance training were conducted. We conducted compliance training sessions such as prevention on harassment in the workplace, capitalist market law in accordance with learners and characteristics of each business.

Operating the ‘Legal Information System’

KT&G operates the online portal homepage called ‘Legal Information System’ to effectively prevent possible legal risks that can take place during the business. The ‘Legal Information System’ is easily accessible in the in-house portal, allowing employees to utilize work related services including legal advice and contract review and various legal information including company regulations and legal policy trends. In 2021, a total of 6,313 business related contracts and a total of 263 consultation were legally reviewed and employees utilize a total of 29 standard contracts with the regulation and amendment of 9 standard contracts. In addition, KT&G newly established the ‘Work Cooperation Degree of Ethics and Compliance’ on the performance evaluation of each institution as a common indicator, encouraging employees to raise the ethical and legal awareness and mange the compliance risks in the course of the business.

Compliance training in 2021

Classification	Target	Content
Regular Compliance training(8)	employees	Prevention on harassment in the workplace
	mangers	Prevention on harassment in the workplace (for managers)
	employees	Prevention on sexual harassment
	managers	Prevention on sexual harassment (for managers)
	All employees	Prevention on sexual harassment
		Awareness improvement on the disabled
Compliance training during the recruitment (4)	New employees (level 6)	Protection of personal information
		Ethics management and prevention on sexual harassment
	New employees(level 10)	Understanding of tobacco business law
		Ethics management and prevention on sexual harassment

Compliance training in 2021

Classificaiton	Target	Content
Special Compliance Training(11)	New executive directors	Ethics management
	New managers	Understanding of ethics management
		Employee Ethics (learning through textbooks)
	New employees (level 3)	Desirable employee ethical awareness
		Understanding of Ethics management
		Understanding of anti-graft law
	New employees (level 4)	Desirable employee ethical awareness
		Understanding of anti-graft law
Global Training (8)	U.S. residents dispatch	Understanding of anti-graft law
		Understanding of Compliance activities
		Prevention training for insider training according to Capital Market Act
		Legal contract and operation
	Tunisia residents dispatch	Fair trade with partners
		Legal marketing and advertising
		Desirable employee ethical awareness
		Legal contract and operation

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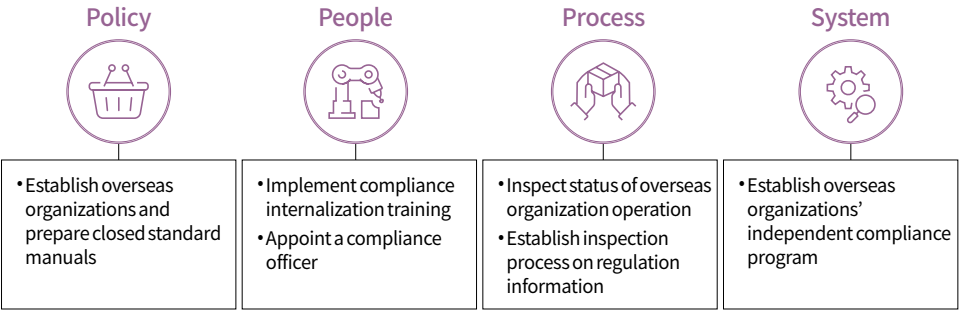
Global Compliance

3P1S Framework

KT&G built our own framework to comply with the laws of the respective countries and strengthen the compliance management to preemptively respond and manage the legal risks, enhancing the capabilities.

Based on 3P1S framework including Policy, People, Process, System, each branch is making efforts to regulate and comply with company laws in accordance with the respective countries. In particular, we built GIP(Global Information Portal), a legal information sharing platform and appoint a Compliance Officer for each branch, allowing them to play a bridging role between the headquarter and overseas branches to keep monitoring.

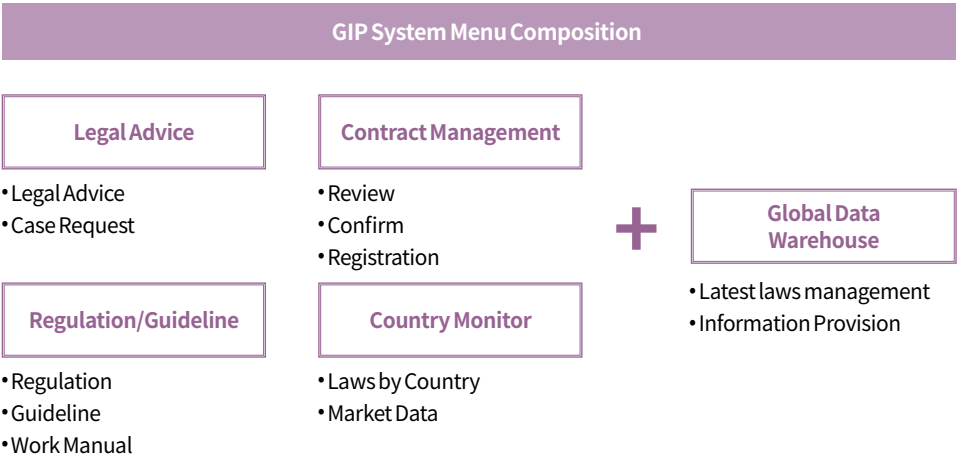
Global Compliance 3P1S Framework



Global Compliance major performance 2021

Performance	Content
Responding to global legal issues	<ul style="list-style-type: none">Preemptively complete the global suits and arbitration through settlement, minimizing effects on businessImplement monitoring on overseas bills related to the company's business and implement legal actions
Stabilizing global business environment through localized legal consultation	<ul style="list-style-type: none">Implement legal consultation for stable advancement into newly pioneered countriesManage early legal risks regarding market advancement with the preemptive regulations and non-price inspection provision
Supporting establishment of global branches and activation of existing branches	<ul style="list-style-type: none">Support localization and premature settlement through legal support regarding newly established branchesRisk hedge by boosting existing branches, reviewing human resources management and fair transaction
Providing legal support to strengthen overseas branches governance	<ul style="list-style-type: none">Implement legal consultation regarding operation and policies of BOD overseas branchesReview the articles of incorporation and regulations on the BOD in Turkey, Indonesia, US, and Russia
Stabilizing English contract management	<ul style="list-style-type: none">Reduce potential legal risks that may arise in the course of business for global new employeesCarry out training regarding principals on English contract management and matters during the negotiation with partner companies

KT&G's GIP(Global Information Platform) was established to share the legal information between the headquarter and overseas branches and individually manage the global legal risks. It consists of legal consultation and contract management, regulation and guidelines, menus of market monitoring. In the first quarter of 2022, we newly established the menu called Global Data Warehouse to systematically manage the laws and regulation information of overseas countries and preemptively manage the legal risks by providing timely information. Going forward, we plan to monitor the laws of the respective countries and communicate overseas branches systematically to prevent and respond risks.



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Global compliance training and consulting

G-compliance department regulates necessary training content and carry out training for new employees and transferred employees and resident employees who are in charge of the work to reduce the legal risks that may arise in the course of overseas business. In addition, we push forward the training regarding principals on English contract management and matters related to negotiation with overseas partner companies to enhance the capabilities of employees.

KT&G periodically monitors the activities of the overseas branch through Compliance Monthly Report written by a compliance officer of overseas branches and always supports overseas branches to allow them to inspect and improve activities on their own. In response to this, a compliance officer conducts preemptive risk evaluation and training activities to prevent recurrence of same cases.

In addition, G-compliance department will select timely topics from the second quarter of 2022 and recommend self-inspection, carrying out monitoring and support to allow overseas branches to improve risk-related matters. In addition, we will hold training seminars to share major issues and induce improvement matters on common difficulties, carrying out support to improve the difficulties.

Turkey subsidiary

In 2021, we carried out training regarding contract management, legal inspection management, compliance guideline, user guide for global legal information system for five employees except non-compliance department (sales/manufacturing) among employees.

Taiwan subsidiary

Taiwan branch established in December 2021 carried out compliance training regarding Personal Information Protection Act of Taiwan for all employees in the first quarter of 2022.

Russia subsidiary

In July 2021, we inspected compliance regarding compliance with company regulations and related laws, bribery and received agreement for compliance with regulation and laws from all employees of the respective overseas branch.

Indonesia subsidiary

A total of 5 training sessions regarding Ethics & Compliance were conducted in January, June, July and November for new employees and existing employees in 2021.

Fair trade and competition

KT&G executes the Fair Trade Compliance Program (CP) based on the ‘Operation Guidelines for KT&G Fair Trade Compliance Program’ enacted in 2002, and compliance officers appointed by the board of directors are responsible for the self-compliance manager, who oversees the CP operation. In 2020, we revised the ‘Operation Guidelines of KT&G Fair Trade Compliance Program to activate CP, reflecting the revised matters relevant to the regulations of the Fair Trade Commission and the Korea Fair Trade Mediation Agency.’ Furthermore, we reflected amendments to the ‘Fair Trade Act’ and the ‘Subcontracting Act’ in the ‘Voluntary Compliance Manual of Fair Trade’ and published E-BOOKs to enhance the accessibility and utilization of employees. In 2021, KT&G checked employees in the sales field for violations of the Fair Trade Act and the Anti-Solicitation Act, and we updated the “Business Site Compliance Guidelines” to ensure that employees were familiar with the laws and regulations on fair trade and fair competition. In addition, we continue to ensure that there are no violations of fair trade and fair competition by providing “insider transaction prevention education” to executives and employees in charge of new product development and strategic planning.

Considering the work, we provide a checklist to employees in areas with a high risk of compliance with the ‘Fair Trade Act’ so that they can autonomously derive and respond to risks and provide professional legal advice if necessary. In addition, we are enhancing our capabilities by providing training and information appropriate for your work.

KT&G puts customer satisfaction as a top priority in its management activities and strives to provide accurate and transparent information that customers need to select their products reasonably. Also, we would like to listen to the customer’s opinions through various channels and reflect on them. Our fair trade principles and standards of conduct for customers are disclosed so that they can be checked through the KT&G Code of Conduct and responsible marketing policies.

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Transparent Disclosure

Tax policy

KT&G abides by domestic and overseas related tax laws in a conservative manner in accordance with the business philosophy of ‘right corporate’ and pays tax, not transferring income to low-tax countries with the purpose of tax evasion. In addition, domestic and overseas subsidiaries abide by laws of each country where businesses are carried out according to parent company’s policies and faithfully fulfill their tax obligations.

An employee who is in charge of tax in each group abides by tax laws in the transparent relationship with tax authorities in accordance with KT&G’s tax policies. All internal and external transactions are dealt with based on the Korea International Financial Reporting Standards (K-IFRS) whereas transactions with overseas subsidiaries are carried out within the normal price range according to the transfer pricing policy. Corporate tax is calculated and paid based on above principles and tax laws whereas tax other than corporate tax is calculated on the basis of accounting standards and related tax laws.

Tax risk management activities

Tax risks are managed at the company level and the operational level. KT&G interprets tax laws, calculates and pays related taxes based on the spirit of compliance at the company level, and shares these principles so that subsidiaries in the group can comply. In addition, at the operational level, each department in the company is required to consult with the finance department in advance to review compliance with accounting standards and tax laws in case of new or large transactions. In the case of corporate tax, profits and expenses under K-IFRS are reported and paid according to corporate tax regulations, and the data that are the basis for corporate tax calculation are stored in the company’s computer system to secure information reliability. In addition, temporary differences that occur during tax adjustment are recorded and managed transparently. In addition, taxes other than corporate tax, such as value-added tax and tobacco consumption tax, are managed similarly to corporate tax, are calculated according to the tax law, and are thoroughly reported and paid.

Tax risk assessment process

Whether the company abides by tax law is inspected by external accounting expert from an accounting firm and all subsidiaries in the group report and pay related tax after the consultation with experts. External tax experts are selected from a pool of experts above a certain level in relevant regions and countries and the status of experts are shared and managed. Corporate tax is managed with the consultation with external experts in advance during the accounting process which is the basis of calculation.

Honest taxpayer

In 2021, the consolidated pre-tax profit of the company was KRW 1.3876 trillion, and the reported tax amount was KRW 359.6 billion, recording a reported tax rate of 25.92%. On the other hand, the effective tax amount was KRW 415.8 billion, and the effective tax rate was 29.97%. Over the past three years, the reported tax rate has an average of 26.33%, and the effective tax rate has an average of 28.68%, which is 2.35% higher than the effective tax rate. It is due to the effect of non-taxable income and non-deductible expenses, changes in deferred tax amount, tax deductions, and reductions. In addition to corporate tax, KT&G is contributing to the development of local communities by creating tax revenues such as individual consumption tax, value-added tax, withholding tax, tobacco consumption tax, local education tax, and acquisition tax.

Region	corporate name	Employees (number)	Revenue ¹⁾	Profit before tax	Income tax accrued current year	Income tax paid ³⁾
Korea	KT&G Corp.	7,370	48,163	13,039	2,329	4,084
Indonesia	PT KT&G Indonesia	3,578	1,812	36	17	28
Global (International) ²⁾	KT&G Rus L.L.C. / KT&G Tutun Mamulleri Sanayi Ve Ticaret A.s.	806	4,887	801	18	46
Sum		11,754	54,862	13,876	2,364	4,158

- 1) KT&G’s revenue comes from 87.8% Korea, 8.9% Indonesia, 3.3% Russia and Turkey.
2) Major overseas branches of KT&G are operating tobacco manufacturing business in Russia and Turkey and tobacco sales business in Indonesia
3) Corporate tax expenses according to K-IFRS
4) The above amount includes gains and losses on discontinued business related to the U.S. business

Tax and tax rate from 2019 to 2021 on a consolidated basis

(Unit: KRW 100 million)

Classification	2019	2020	2021	Average
Profit before tax	14,602	16,121	13,876	14,866
Reported tax amount	3,878	4,267	3,596	3,914
Reported tax rate	26.56%	26.47%	25.92%	26.33%
Effective tax amount	4,230	4,405	4,158	4,264
Effective tax Rate	28.97%	27.32%	29.97%	28.68%

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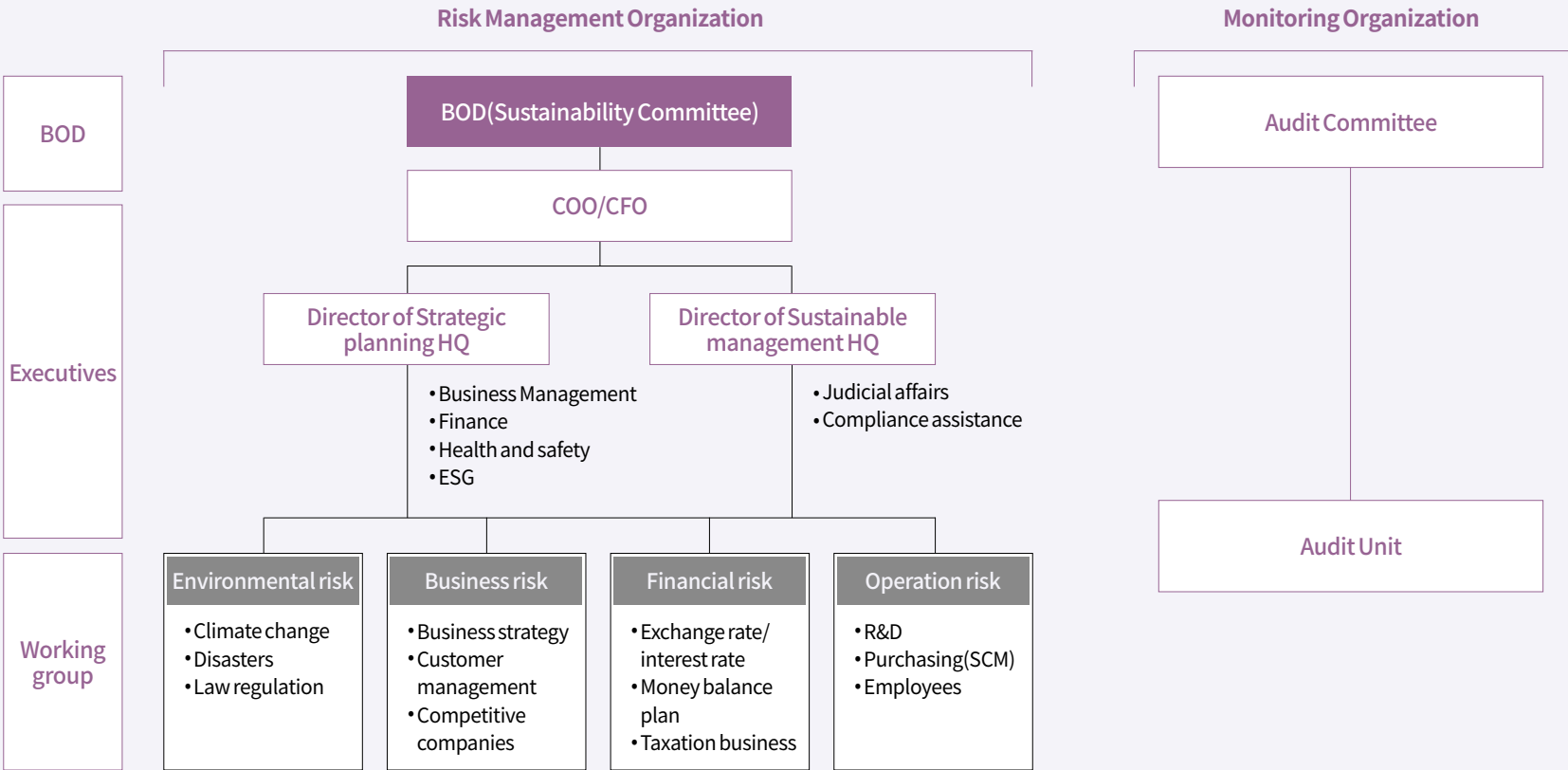
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RISK MANAGEMENT

Risk management system

KT&G induces social, environmental, economic, and operational potential risks and builds a risk management system and relevant organizations to prevent and manage the risks in advance at the company-wide level. KT&G induces potential risks considering work characteristics and consulting inside and outside interested parties and determines priorities, establishes and carries out countermeasures on induced risks by analyzing possibility and the level of effects. In addition, the Audit Committee periodically inspects the status of risk management and responds to the risks immediately, operating risk management systematically. In addition, we conduct training periodically to allow employees in charge of the work to notice and respond to the potential risks clearly and manage the related policies and responsive system through updates to allow relevant departments to apply the policies and responsive system. The significant content has been reported to BOD, and the Sustainability Committee makes efforts to deliberate and make resolutions on essential content to enhance the risk management system.

Risk management organization



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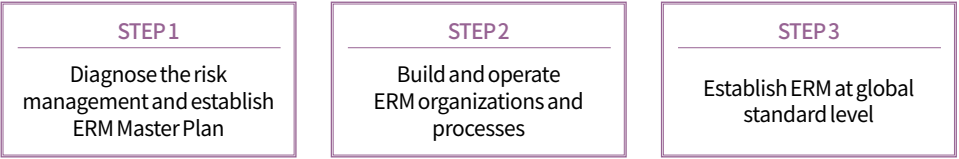
Implementation of KT&G Group Management System

In 2022, the Business Management Office established the KT&G Management System. It is a group-wide policy that presents the primary direction and methodologies for business management to managers of overseas subsidiaries and departments in charge of the headquarters as a corporate rule. By introducing these group-level policies, we can accelerate global management, improve the quality of overseas corporate governance, and strengthen overall risk management. In addition, we plan to improve our understanding of group management policies and risk management capabilities through the KT&G Management System sharing meeting and training for managers of overseas corporations.

Establish an Enterprise Risk Management (ERM)

To flexibly respond to the complex and diversifying global business environment and upgrade the existing risk management system, the Business Management Office is promoting establishing an Enterprise Risk Management (ERM) system. In 2021, we evaluated our current risk management system. In 2022, we established ERM Master Plan and a risk management system related to new business and real estate investments. We aim to develop a global standard-level ERM system in 2024 and spread it within the group through the period of ERM organization and process construction and advancement. In addition, through education and campaign activities related to this, we plan to increase the risk management capabilities of executives and employees and spread the risk management culture.

ERM establishment process



Financial risk factors and countermeasures

The Business Management Office induces potential risks to prevent and respond to preemptively financial and non-financial risk factors that may arise in the business. In addition, the Business Management Office is in charge of a controller to carry out risk management work.

Financial risk factors and countermeasures

Classification	Financial report	Cause	Countermeasures
Financial	Financial report	• Transparency and reliability of financial reporting	• Controller system operation • 24/7 monitoring of accounting and regulatory trends • Quarterly evaluation of internal accounting control system and improvement actions • Introduction and opening of Group ERP (SAP) (scheduled for 2022)
	Tax	• Corporate tax and regional tax management	• Analyzing target business through tax review and advice, and optimize tax return • Prior review through operation of tax advisory service
	Foreign currency	• Compliance with Foreign Exchange Transactions Act	• Improvement of foreign exchange risk management system • Invitation training on the Foreign Exchange Transactions Act • Weekly and monthly foreign exchange market trend analysis
Non-financial	Strategy & reputation	• Corporate and brand trust and credibility	• Business management risk analysis and management to be considered in decision making
	Corruption	• Tangible and intangible losses due to unethical behavior of employees	• Training on anti-corruption for employees, self-check on ethics, and stakeholder survey • Whistleblower protection and compensation • Risk monitoring through e-Audit Portal System, regular inspection on accidents and sharing results
	Law and regulation	• Compliance with laws related to tobacco business, environment, and safety • Filing major business-related lawsuits	• Monitoring of major business-related legislative and government policy trends • Publication of compliance guidelines on legal risks • Compliance with relevant laws for the implementation of the FCTC Convention
	Information protection	• Hacking, leaking of private information., etc.	• Information protection system operation, security, and monitoring
	Operation	• Employees, business processes, or system errors	• Deriving and implementing improvement tasks through management diagnosis
	Climate change	• Climate Change Transitions, Physical Risk Occurrence	• Identifying risks in advance and prepare countermeasures by analyzing climate change scenarios • Monitoring the risk and response activities performance • Analyzing climate change trends and update risk factors

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Regular controller system

The Business Management Office, in charge of business management, has built and operated a control system to manage the risk factors that may arise in the whole business and enhance the feasibility of business strategy. In 2022, we expanded and applied the system to business departments such as global, manufacturing, and R&D units to analyze risks and opportunities in accordance with internal and external changes in environments. Moreover, we conduct three-dimensional risk analysis and management, such as internal control checks, process improvement, and the step-by-step management point setting of the value chain.

Risk management targets based on the controller system

Business division <ul style="list-style-type: none">• Real Estate Business HQ• NGP HQ	Domestic subsidiaries <ul style="list-style-type: none">• KGC• Yungjin Pharm• COSMOCOS• SangSang Stay• TAE-A Industrial
Overseas subsidiaries <ul style="list-style-type: none">• Indonesia subsidiary• U.S. subsidiary• Russia subsidiary• Turkey subsidiary• Brazil subsidiary• Taiwan subsidiary	Overseas branches <ul style="list-style-type: none">• China branch• Tanzania branch (raw materials)

Regular Management Diagnosis

To prevent risks in advance and contribute to transparency and rationalization of management, KT&G conducted a process-based management diagnosis for headquarters, local institutions, and domestic and foreign subsidiaries. Based on the results of the management diagnosis, improvement tasks are derived, task implementation is monitored, and progress is checked. In 2021, the KT&G NGP division, COSMOCOS, Sangsang Stay, and TAE-A Industrial were conducted. In the first half of 2022, we diagnosed the management of Yungjin Pharm and its Indonesian subsidiary.

Management diagnosis process

STEP 1 Current status analysis and planning	STEP 2 Due diligence preparation	STEP 3 On-site due diligence	STEP 4 Report on results	STEP 5 Improvement task monitoring
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Regular management diagnosis target

Head office	Domestic regional institutions	Domestic and overseas subsidiaries who agreed by prior agreement
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Audit activities

The Audit Committee established the audit pool for KT&G’s major work and conducted systematic internal audits according to their goals. The Audit Committee consists of employees with experience in diverse areas such as CPA, sales, marketing, and manufacturing, conducting regular training and holding seminars to enhance expertise for their work. Internal audit results are reported to the Audit Committee every quarter, and control activities design and operation status of the internal accounting control system is carried out to inspect the efficiency of control activity design and operation. We improve the shortcomings found in the course of evaluation are improved through consultation with departments. Furthermore, we monitor the system of audit based on 42 items and request summons when abnormal data is identified.

Audit activities

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

Emerging Risk

KT&G is trying to derive and prevent potential risks that may occur in general management by considering the characteristics of the business. Therefore, we are establishing a system for responding to each potential risk derived through cooperation with related departments and dedicated risk management departments.

Emerging risk	Business impact	A mitigating action
Revision of the Tobacco-related Tax System	<ul style="list-style-type: none">• Due to the increase in tax amount (compensation effect), profits may decrease, and demand deviation may intensify in the long run• Increased market uncertainty may strengthen the high-priced product line to secure operating profit• Competition in price strategy such as delayed increase and promotion of competitors is expected	<ul style="list-style-type: none">• Sharing understanding of adverse effects of tax increases with relevant authorities• Simulate and respond to tax increases by calculating expected changes in demand/income• Establishment of business strategy for responding to tax increase
Strengthen the need to respond to climate change	<ul style="list-style-type: none">• Increased direct and indirect burdens associated with carbon emissions can increase investment costs• National emissions allowances and reduced emissions quotas may affect business operations• Carbon costs may be included in the purchase process, increasing sales costs	<ul style="list-style-type: none">• Set enhanced GHG reduction goals (SBT)• Establish improvement tasks for reducing GHG• Establish a 100% Transition Roadmap for Enterprise-Wide

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ENHANCEMENT OF SHAREHOLDER VALUE

KT&G stipulates related matters in internal regulations such as the articles of association and the Corporate Governance Charter to guarantee the fundamental rights of shareholders by the standards set by commercial law and related laws. In particular, the Corporate Governance Charter stipulates in detail the right, fair treatment, and responsibility of shareholders to attend the general shareholders' meeting and receive voting rights and information. KT&G will continue to strive to improve shareholders' long-term value by providing the same information fairly to all shareholders, supporting shareholder participation in important decision-making, and ensuring fair voting rights and the right to receive appropriate dividends.

Protecting shareholders

KT&G is actively introducing a system that enhances the convenience of exercising shareholder voting rights to reflect shareholders' opinions in the company's important decision-making process. For more shareholders to attend the general shareholders' meeting and express their opinions, the company has participated in the distributed voluntary compliance program of the general shareholders' meeting and held regular shareholders' meetings on days other than the concentration day of the general shareholders' meeting for the past three years. In addition, we actively encourage the exercise of voting rights by proxy to ensure shareholder participation in the company's important decisions. In addition, to enhance the convenience of exercising shareholder rights and expand shareholder participation, we implemented the electronic delegation system in 2020 and 2021 and introduced the electronic voting system in 2022. Based on various efforts to enhance the convenience of exercising shareholder voting rights, the average ratio of the number of shares present at the shareholders' meeting over the past three years was about 76.4%. KT&G is also making various efforts to protect minority shareholder rights. The Corporate Governance Charter stipulates and guarantees shareholders' rights to ask questions and explanations at the general shareholders' meeting. The company provides a chance to speak after fully explaining each bill to ensure fair and efficient deliberation of the purpose of the meeting. In addition, KT&G introduced an intensive voting system to strengthen the rights of minority shareholders and protect the right to propose shareholders under related laws such as commercial

law. It is guided through corporate governance report and annual reports, and the department in charge of the procedures explains in detail if there is an inquiry.

In addition, Article 4 of the Board of Directors Regulations emphasizes that the board of directors should consider protecting shareholder rights in corporate management by complying with the director's ethics code, making the best decisions, and executing duties as a good manager.

Active Shareholder Return Policy

KT&G has steadily raised and maintained dividends per share since its listing. We have been conducting 23 consecutive dividends since its listing in 1999. Over the past three years, the total dividend amount has been KRW 1.7284 trillion, and the dividend propensity has averaged 54.5%. Furthermore, to maintain a stable and continuous dividend policy and enhance shareholder value by supporting the company's appropriate market value, the mid-to-long term shareholder return plan worth about 2.75 trillion won was announced third quarter earnings release in 2021. As part of that, it acquired 4.1 million treasury stocks worth about 350 billion won in the second half of 2021 and recorded a 58.9% dividend payout through a settlement dividend worth about 580 billion won. KT&G will continue to operate a reasonable and predictable shareholder return policy at the global corporate level along with strategic internal and external growth investments for the company's sustainable growth.

Providing fair shareholder information

To ensure that all shareholders receive adequate information on the company, we hold a quarterly company briefing session of earnings presentation every year. We present profit and loss forecast information for the next year on the company's website. Shareholders' interest in mid-to-long term business plans and shareholder return policies is also transparently communicated with all shareholders through official disclosure channels and websites through state-run doors. In addition, by Article 15 of the Securities Market Disclosure Regulations, it is immediately disclosed to provide relevant information to shareholders in a timely and fair manner when a fair disclosure occurs. In 2021, 5 fair disclosures and 16 English disclosures were implemented, including dividend plans.



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Sustainability Management of Subsidiaries

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

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SUBSIDIARIES’ SUSTAINABILITY MANAGEMENT

Strengthening the Sustainable Management System of Subsidiaries

Drive the Establishment of a Group ESG Data Management System

KT&G is trying to strengthen the group’s sustainable management system by reflecting ESG performance in the management compensation system of all group companies. According to the direction of business growth by business portfolio, we would like to implement strategies for effective synergy enhancement. For health functional food businesses with 25% or more contribution to sales, we would like to integrate ESG management into change innovation strategies for future growth. In particular, to enhance transparency in ESG information disclosure at the group level and lay the foundation for implementing ESG management, we are establishing an integrated management system for ESG quantitative data for all domestic and overseas businesses. In addition, other subsidiaries other than the tobacco business and health functional food business plan to find challenges that can contribute to improving corporate value by minimizing ESG risks and creating ESG-based business opportunities in the future.

Enhance Subsidiaries’ Execution through ESG connection with management’ KPI

To internalize ESG management and enhance capabilities across the enterprise, KT&G wants to identify issues that fit the characteristics of each business portfolio and introduce/expand ESG KPIs to strengthen risk and opportunity management. Therefore, we plan to link ESG indicators when compensating for management evaluation and expand related indicators so that ESG task execution can be internalized when evaluating the performance of each organization. In the future, KT&G Group will continue to discover business opportunities by enhancing its subsidiaries’ execution capabilities and effectively responding to external demands due to the increasing importance of ESG information disclosure.

Responding to Global Initiatives

In the direction of systematization of group sustainability management, the 2021 KT&G report established a quantitative data management system for KGC Ginseng Corporation, Yungjin Pharm, COSMOCOS, Tae-A Industrial, and KGC Yebon. It disclosed the contents to ESG Data Book. In particular, KGC Ginseng Corporation is organizing internal execution based on the materiality map of the Sustainability Accounting Standards Board (SASB) to identify ESG issues according to industry characteristics.

We will strengthen our ability to respond to global initiative guidelines such as SASB, TCFD, SBTi, and TNFD to enhance the group’s ability to implement global common agendas such as climate change response, acceleration of net environment, and biodiversity protection.

ESG Reporting Issues of KGC

Classification	ESG issue	Reporting issue	Reporting target
SASB reporting standards for processed food business	Food safety	Sustainable materials procurement	●
		Food quality management	●
	Packaging lifecycle	Eco-friendly product management	●
	Water	Water management	●
	Energy	Energy management	●
	Product labelling and marketing	Health and nutrition, GMO label	
	Supply chain management and social impact	Cod of conduct in the supply chain and fair trade	

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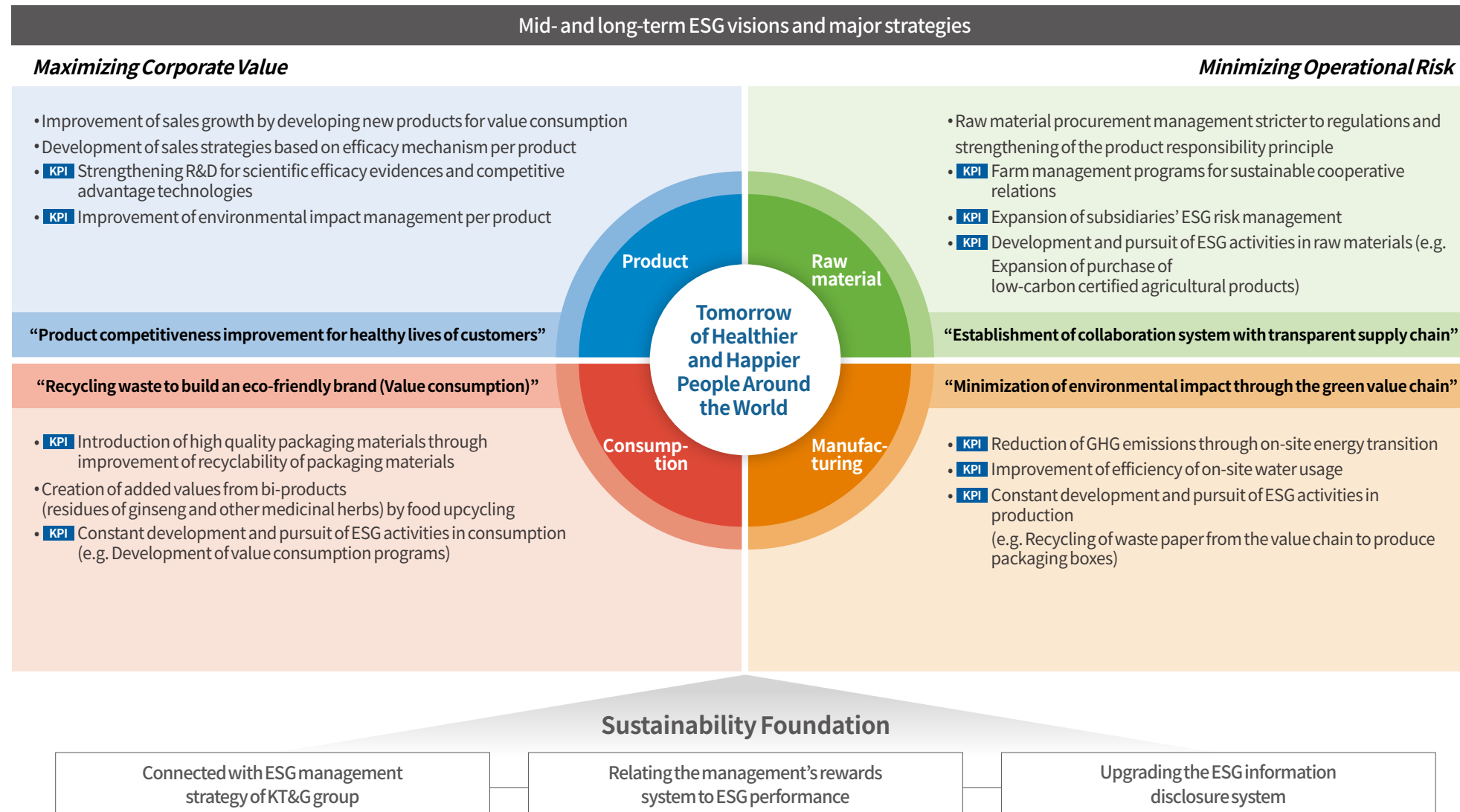
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2025 KGC Sustainability Strategy & Target

Mid- and long-term ESG visions and major strategies

To achieve ESG visions of the KT&G group and sustainable business development, KGC is committed to practicing ESG management proactively. To this end, KGC has set its mid- and long-term vision of “Tomorrow of Healthier and Happier People Around the World.” KGC has its unique ESG management system throughout the value chain, with five key goals: ‘Establishment of collaboration system with transparent supply chain,’ ‘Minimization of environmental impact through the green value chain,’ ‘Improvement of product competitiveness for healthy lives of customers,’ and ‘Recycling waste to build an eco-friendly brand.’ In the future, KGC will continue to realize the ESG management systematically for sustainability management to achieve the group’s ESG visions and meet the demands of our customers and society.



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2025 Sustainability Target

We have established 2025 ESG goals per major task to improve our capabilities to manage ESG risks and opportunities, and promote internal ESG management performances. To achieve the goals, a designated department continues to monitor related affairs.



Short-term objectives in 2022

Raw materials





Expanding the number of certified low-carbon agricultural products to 10 kinds

Production

Producing renewable packaging boxes 100% through retrieving scrap papers generated throughout the value chain.

Consumption

Developing and operating a values-driven consumption program at customer touch points.

Key area		2025 ESG goals (Plan)
 Raw material	<ul style="list-style-type: none"> • Farm management program 	<ul style="list-style-type: none"> • Farm management program (SGP¹⁾) based on sustainable cooperative relations
	<ul style="list-style-type: none"> • Suppliers' ESG risk management 	<ul style="list-style-type: none"> • 100% ESG evaluations on major raw material suppliers (27 companies) and OEM companies
 Product	<ul style="list-style-type: none"> • R&D for product competitiveness 	<ul style="list-style-type: none"> • R&D Investment for product innovation and marketing capabilities development
	<ul style="list-style-type: none"> • Management of products' environmental impact 	<ul style="list-style-type: none"> • Evaluation of all processes of major products (e.g. Korean Red Ginseng, etc.) (From 2023) • Value chain emissions (Scope 3) inventory management
 Manufacturing	<ul style="list-style-type: none"> • GHG emissions reduction 	<ul style="list-style-type: none"> • Carbon neutrality at all business sites in 2050 - GHG emissions reduction by 25% compared to 2020 levels by 2030 - Expansion of renewable energy use at business sites
	<ul style="list-style-type: none"> • Water usage efficiency improvement 	<ul style="list-style-type: none"> • Reduction by 20% compared to the 2020 water consumption by 2030
 Consumption	<ul style="list-style-type: none"> • Improvement of packaging material recyclability 	<ul style="list-style-type: none"> • Step-by-step activities to reduce environmental impact of packaging materials and introduction of eco-friendly high-quality packaging materials - Establishment and application of packaging material R&D guidelines - 100% transition to eco-friendly bags (by 2023) - R&D to use paper without lamination and develop alternatives to plastic pouches in the mid- and long-term

● KGC-specific tasks ● Group-wide tasks

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FOOD SAFETY

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

Sustainable Supply Chain Management

Sustainable Ingredient Sourcing

Raw Ingredient Sourcing Status

With strong commitment for safe, eco-friendly, and high-quality raw ingredients, KGC uses ginseng as the main ingredient and otheir traditional medicinal ingredients (antler, angelica, and peony) as auxiliary ones. In case of the domestically-grown traditional medicinal ingredients and agricultural products, KGC procures government-certified products for all items. For red ginseng, we procure 6-year-old domestically-grown fresh ginseng. We seek mutual growth with farms by managing the entire cultivation process and supporting the farms to produce high-quality raw ingredients through 100% contract-based production. For crude medicines, KGC procures raw ingredients from excellent production areas abroad if they cannot be produced domestically or has poor quality. Such procurement principles are part of our constant efforts to fulfill the corporate philosophy of “having our children’s safety as the priority.” To secure product safety against physical, chemical, and biological hazards and GMOs, we perform systematic and thorough verifications on the entire process from pre-cultivating to purchasing stages.

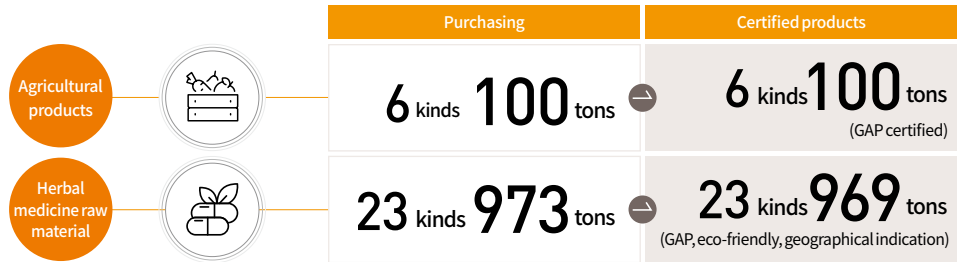
Hazardous Factor Control by Stage

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

Quality Certification Status

Recognizing that using safe raw ingredients is inevitable for safe production, KGC conducts internal safety assessments on natural ingredients from the soil stage before planting to the purchase stage. We evaluate fresh ginseng, which is the raw ingredient for red ginseng, with stricter standards than the government’s Good Agricultural Practices (GAP). For herbal medicines, we acquire government certifications (GAP, eco-friendly, geographical indication, low-carbon production) for all medicinal herbs, adding trust to the safety management of our raw ingredients.

Purchasing certified raw materials



Comparison of ginseng-related GAP and KGC quality control standards

Management item	GAP	KGCL
Management period	3 years (4-year-old ~ purchasing fresh ginseng)	7-8 years (Farmland ~ purchasing fresh ginseng)
Management unit	By lot	By ginseng field (multiple lots)
System	GAP management system	Cultivation management system
Tracking	Tracking log (Annual inspection)	Management records + KGC tracking log (Quarterly inspection)
Hazardous factor control	Pesticide residue	Government standard
	Water quality	Agricultural water
	Heavy metals	Less than 100\$ of government standard
	Chemical fertilizer	Prohibited to use for ginseng
Environment and worker protection	Clean / protective equipment	Clean / protective equipment

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Stable Procurement Management

To respond to uncertainties in supply due to agricultural production variability and long lead times (1 to 3 years for crude medicines, seven years for ginseng), KGC regularly predicts mid-to-long-term ingredient demand and controls supply and demand to secure adequate inventory. Also, we are making efforts for stable procurement by establishing various procurement processes while supporting contract farms at the top of the value chain for their regular operation. KGC provides interest-free support for cultivation management fees, purchases the entire production volume, and provides cultivation technology training to improve farmers' competitiveness, actively realizing win-win management. Moreover, we thoroughly manage raw fresh ginseng in each stage of land selection, contract signing, cultivation process, and purchase to ensure stable procurement.

Raw Fresh Ginseng Management Process



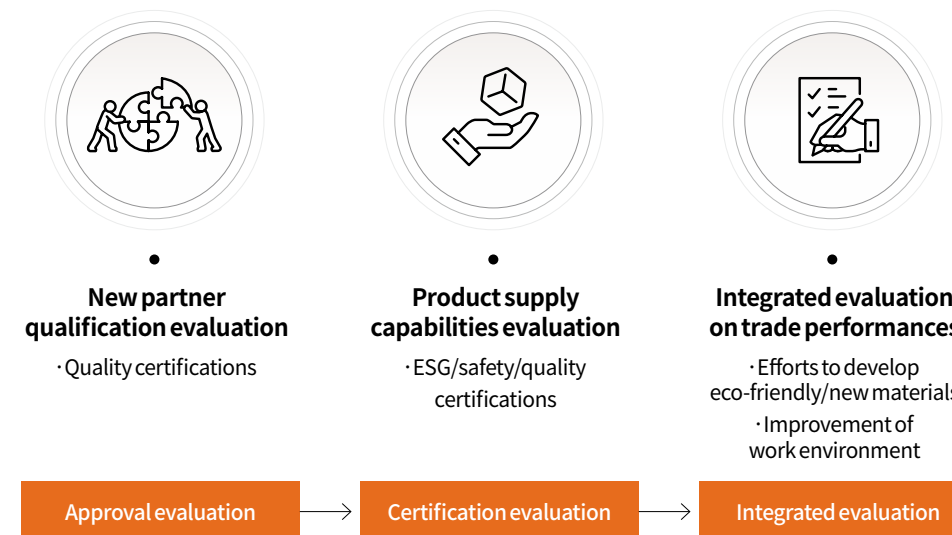
Farm Support Program

Consulting for Farm Support

KGC has established the Sustainable Ginseng Program (SGP) to create a sustainable ginseng production platform with farmers under its directions to systemize sustainable management. SGP is a program that manages sustainable ginseng cultivation to provide high-quality ginseng for customers' health and comply with environmental and social regulations. In addition, KGC plans to give its compliance guidelines and have a third-party evaluation of the result. We plan to provide the minimum guidelines for sustainable production by distributing and training the standard cultivation methods for the stable operation of the SGP in cooperative relations with farms. We plan to expand and differentiate SGP by sending Ginseng Consultants (GC) from local offices to farms for on-site training and promotion.

Evaluation of Supply Chain ESG and Advancement of indices

For partners' sustainable management and mutual growth, KGC includes ESG evaluation items in partner management factors. In 2021, targeting partners to supply primary materials (such as paper boxes, AL pouches, etc.), we evaluated their product quality, ESG certifications, and efforts to develop eco-friendly products. We are establishing a process for new transactions to assess a partner company, its product supply capabilities, and an integrated evaluation of trade performances. In the future, KGC will constantly update our ESG evaluation factors to enhance partners' sustainable management capabilities.



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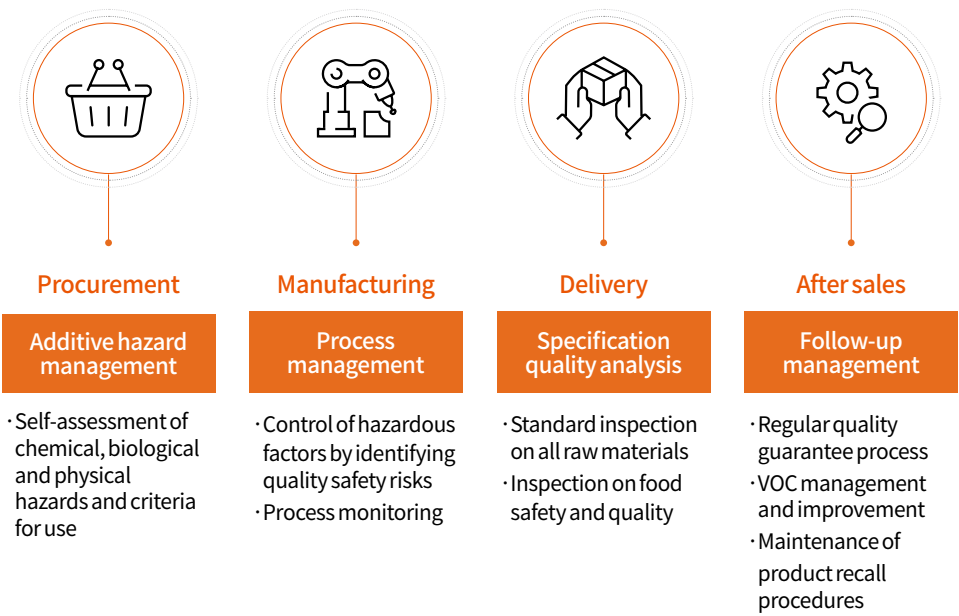
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Food Quality Control

Food Quality Control System

KGC operates Preventive Food Quality Control System based on Robotic Process Automation (RPA) to provide safe, high-quality products. We constantly collect domestic and foreign food safety and quality information and review and evaluate the impact on KGC businesses. If necessary, KGC’s relevant sector responds immediately to identify and prevent possible hazards in advance and continuously manages risk factors by reflecting essential information in each sector’s business or standards.

KGC’s food quality management process



Additive hazard management

Under the principle of using safe raw ingredients only, KGC purchases food additives from finally-selected manufacturers that satisfy internal standards. Food additives from external manufacturers are subject to preliminary quality and food safety evaluation. We have internal criteria to manage chemical, biological, and physical hazardous ingredients and the usage standards, including those without legal standards.

Manufacturing process control

Through trial and initial production to secure food safety and quality, KGC identifies risks such as food poisoning, foreign substances, and quality deterioration that may occur in the manufacturing process. We are operating process conditions and quality assurance equipment to realize optimal quality by controlling relevant hazards. KGC monitors in real-time and manages all major procedures.

Inspection on warehousing, processing and outgoing stages

All processes are inspected and monitored according to the specification. Products that satisfy the food safety specification and quality standards are finally released. All raw and subsidiary materials, including worker hygiene products, manufacturing water, air, fuel, etc., are subject to inspection in the warehousing stage. Process conditions and the quality of processed products are analyzed thoroughly in the food manufacturing process. We also examine the quality of the finished products according to the specification before shipment and ship verified products only.

Follow-up management

Separate from the manufacturing process, we have the inspection, analysis, and verification processes on raw ingredients, suppliers, and manufacturing processes. To enhance the product quality even after product sales, we collect Voice of Customer (VOC) with our expert counselors and the IT system. We constantly reflect customers’ complaints or suggestions into our products. Based on the accumulated database, we are developing and implementing improvement plans to prevent the same VOC from reoccurring. We share the results with customers in a transparent manner. If hazardous elements are found in shipped food or used raw and supplementary materials, we promptly recall the products from the market to minimize consumers’ damage. With periodic inspections, we are exerting utmost effort for food safety management.

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Compliance and Certification

Recognized as an internationally accredited testing institute for analysis of crop protection agents, heavy metals, general food ingredients, and microorganisms in 2010, KGC complies with the Food Safety Modernization Act (FSMA) of the U.S. Food and Drug Administration. Moreover, KGC guarantees that it meets the global food safety requirements throughout the manufacturing process by acquiring objective quality certifications trusted by various consumers, such as the Food Safety Management System (FSSC22000), Halal and Kosher, etc. We are committed to maintaining consumers' trust in our products.

Legal compliance and certification



Classification		Content
Law	International Food Safety Regulations	Satisfied food safety and quality standards of HACCP (food) and GMP (health functional food)
	US FDA Food Safety Modernization	Satisfied food safety risk control and validation procedures
Certification	FSSC22000	Satisfied global food safety requirements in the entire supply chain from development, manufacturing and sales, etc.
	Halal, Kosher	Satisfied quality certification standards set by Islamic and Jewish cultures



Agricultural products

For agricultural products (fresh ginseng), KGC manages them with standards equivalent to or stricter than the government's to ensure food safety. Among our pesticide residue tolerance standards, 19% is more stringent than, and 81% is equivalent to the government's (based on the Ministry of Food and Drug Safety Notice No. 2021-79). We guarantee safety through up to 430 inspections over seven times from the planned soil to the final product.

Processed food

We fundamentally comply with the Food Sanitation Act and the Health Functional Foods Act when manufacturing processed food. When we design a product and issue a standard within the specification limits under the specifications document attached to each law, KGC Plants manufacture the product based on it and meet the regulations by complying with HACCP and dry GMP at the time of manufacturing. In the future, we will continue to do our best to maintain consumers' trust and ensure food safety.

Compliance with Food Safety Cooperation Act (FSMA)

KGC establishes and implements food safety plans for proactive and preventative food safety management. The Food Safety Modernization Act (FSMA) is a law enacted in the United States to prevent and respond to food safety-related incidents and accidents in advance. As a global export company, KGC complies with the requirements of relevant laws. In addition, we are committed to preventing food contamination in any intentional or unintentional way. The key employees engaged in food safety management at KGC are PCQI (Preventive Controls Qualified Individual) personnel who have completed relevant professional training. They are assigned in the right place at the right time to dedicate themselves fully to safety management tasks. We are preventing unintentional food contamination through the food preventative management system (for manufacturing processes, hygiene, suppliers, and allergen) while operating food defense and fraud prevention programs to prevent intentional contamination. We are committed to monitoring and evaluating the human and physical environment to ensure food safety.

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ECO-FRIENDLINESS OF PRODUCTS

SASB Code: FB-PF-410a.2

Eco-friendly Product Strategy

KGC's Environmental vision

In line with the growing attention of internal and external stakeholders to eco-friendly products and resource circulation, and the international community's declaration to pursue carbon neutrality (Net-zero), KGC constantly seeks to develop eco-friendly products. KGC reviews various ways to create eco-friendly packaging materials and use renewable raw materials for packaging to reduce waste for environmental sustainability. We strive to develop packages that minimize ecological impact, aiming for 'Zero Waste' and 'Low Impact Package' strategies.

Eco-friendly Product Development Action Plans and Performances

Sustainable Package Development

packaging development manual for sustainable environment conservation through reducing waste and minimizing environmental impact. We have 3R principles for this: Reduce, Recycle, and Recover. Under this direction, we save resources by reducing the weight and volume of a product, producing products with renewable materials for recycling after the disposal of packaging materials, and using eco-friendly materials. We are committed to developing eco-friendly packaging materials and manufacturing green products by complying with the 3R principle.

Packaging Material Reduction and Rationalization

In April 2021, KGC launched its first generation eco-package campaign as a pilot project for eco-friendly packaging with consumers. Through this, we enhanced customer satisfaction by reducing packaging materials for consumers who had taken our products for a long time. As a result, we successfully released the 2nd generation of eco packages for Korea Red Ginseng Tonic Gold. We used eco-friendly paper certified by the Forest Stewardship Council (FSC) to reduce natural raw materials such as wood. By developing a compact package, we were able to reduce packaging materials. Instead of oil-based ink, we used soy oil to enhance the recyclability of our containers. With our slogan of 'Think Green, Take Green,' we are delivering Cheong-Kwan-Jang's philosophy to care about not only 'our health' but also 'the earth's health.' In the future, we will continue to deliver Cheong-Kwan-Jang's commitment to eco-friendliness by developing green products.

Eco-friendly package design examples

Design direction

Eco-friendly Blister package
(Packaging material reduced, eco-friendly materials used)

Target product



Korean Red Ginseng Extract 120g
Korean Red Ginseng Extract Capsule (500mg * 100 capsules)

Application method and effectiveness

- Eco-friendly packaging materials are applied (Bio-PET)
- Minimization of plastic usage (Saved 7 tons of PET annually compared to the previous package)

Design direction

Eco-friendly paper box developed
(Packaging rationalization and streamlining)

Target product



Korean Red Ginseng Tonic Gold 40ml * 30 packs

Application method and effectiveness

- Minimization of paper usage thanks to the compact structure (Saved 61% or 46 tons of paper annually compared to the previous package)
- Minimization of plastic materials (Plastic handles are replaced with paper handles)
- Development of low-carbon package using FSC-certified recycled paper and soy oil-based ink (Awarded with Grand Prize in the 16th Korea Package Design Award)

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Joining 'Resource Circulation Council' led by KFIA

KGC joined the 'Resource Circulation Council' led by the Korea Food Industry Association, which aims to fulfill the responsibilities of the food industry to establish a resource circulating society. The eleven food-related companies in the council hosted working-level meetings to provide the industry's collective opinions on current issues in the relevant policies and systems. In addition, the committee published best practices for packaging resource circulation. KGC was selected as one of the best examples. We will continue to make our utmost effort to develop eco-friendly packaging materials, share those with others and realize a sustainable resource circular economy.

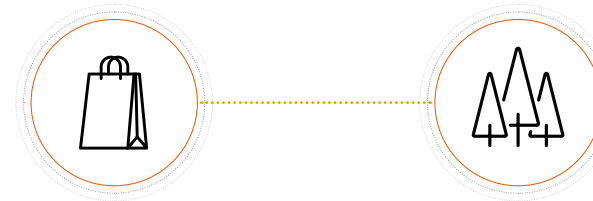
Future Plans

KGC will constantly develop eco-friendly packages and minimize the environmental impact by applying them.

Eco-friendly package development and gradual application

- Enhancing the green campaign impact by developing eco-friendly packages for KGC products and reducing paper box usage
- Pursuit of sustainable eco-friendly packages using FSC-certified kraft paper and soy oil (green material)-based printing
- Seeking to apply eco-packages per SKU centering on major products
(Red Ginseng Tonic Gold 30 packs: March 2022 → Red Ginseng Tonic 60 packs: September 2022 → Hwa Ae Rak Jin 30 packs: October 2022)

Reduction in packaging materials and packaging rationalization



Improve-ment

- Development of bags made of recycled paper
→ Saved 1,023 tons of paper (Based on the usage amount of 2021)

- Improvement plans for packaging of Cheon Nok Tablet/Cheon Nok Pills
: Cheon Nok Table 180g*1 ea/2 ea set (Expected to improve in early 2023), Cheon Nok Pills (To be determined)
→ To apply eco-friendly packaging design processes and improve the set packaging and space ratio

Achieve-ment

- Preserved 24,720 trees (1,030 tons) compared to the previous practice
- Expected to save energy by 10 million kwh
- Expected to save water by 90 million L

- Expected to save wood by 179g for Cheon Nok Pills 1 ea and 419g for 2 ea
- Expected to save plastic by 12.7g for Cheon Nok Pills 1 ea and 37.3g for 2 ea

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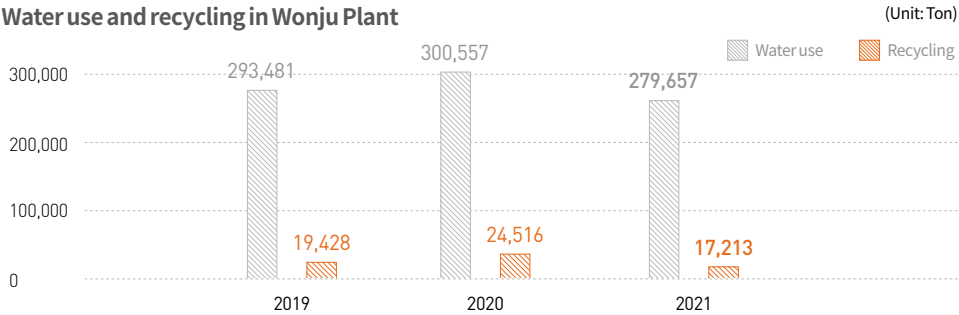
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REDUCE ENVIRONMENTAL IMPACTS

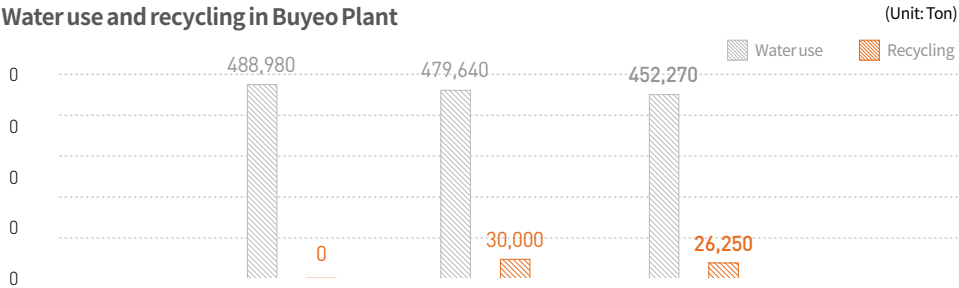
SASB Code: FB-PF-140a.1, 2, 3/SASB Code: FB-PF-130a.1

Water Use and Recycling Water Use and Recycling per Site Wonju Plant

Wonju Plant has adopted the ‘individual circulation method’ to use gray water. Through the self-treatment system of wastewater generated from the plant, the plant uses gray water for cleaning water in the plant and toilet water inside. The plant is now seeking to apply gray water to the cleaning process of fresh ginseng to improve the gray water usage ratio. By doing this, we expect to increase the water recycling rate from 7% to 10%. Also, by using greywater as a new water source, the Wonju Plant reduces total water consumption and participates in the efforts of local communities to protect water resources.

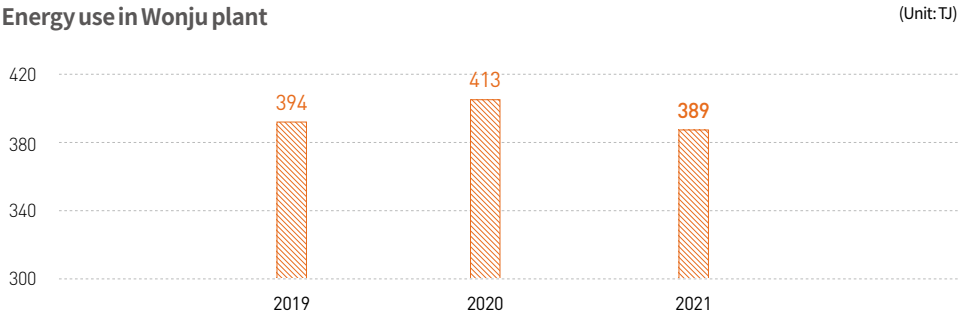


Buyeo Plant
The Buyeo Plant mainly uses water brought into the business site through the waterworks. The intensity of water use (in unit) of the Wonju plant has been gradually decreasing for the past three years. The plant is operating the system to retreat cleaning water for fresh ginseng washing processes, which consumes a lot of water supply, saving 6% of water annually. We are also seeking ways to recycle highly-concentrated water from the water treatment room, which is currently drained and wasted. Based on such efforts, Buyeo Plant tries to improve the water recycling ratio from 6% to 10%.

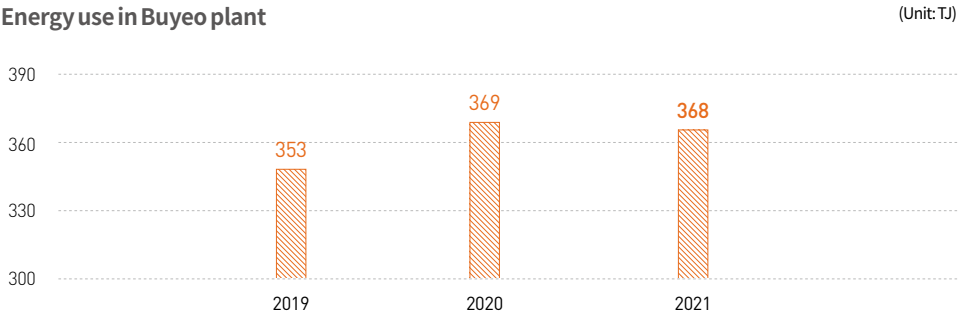


Energy and GHG reduction Energy Use per Site Wonju Plant

Energy sources used at the Wonju Plant include fixed combustion such as LNG and LPG, mobile combustion such as diesel and gasoline, and indirect one represented by electricity. The plant has taken energy-saving activities, such as replacing luminaries with LEDs, separating circuits, and chemical cleaning pipes. As a result, the energy consumption in 2021 was 389 TJ, which decreased by 5.9% compared to 2021. After reviewing economic feasibility and stability, the plant plans to introduce solar power generation.



Buyeo Plant
Energy sources used at the Buyeo Plant include fixed combustion such as LNG and LPG, mobile combustion such as diesel, LPG for vehicles and gasoline, and indirect one represented by electricity. In 2020, the energy consumption of the Buyeo Plant was 369 TJ, in the order of fixed combustion (54%), indirect (46%), and mobile combustion (less than 1%) energy, and in 2021, the energy consumption was 368 TJ. These are the same levels compared to the previous year. The plant plans to introduce solar power generation based on economic feasibility and stability reviews for further energy saving.



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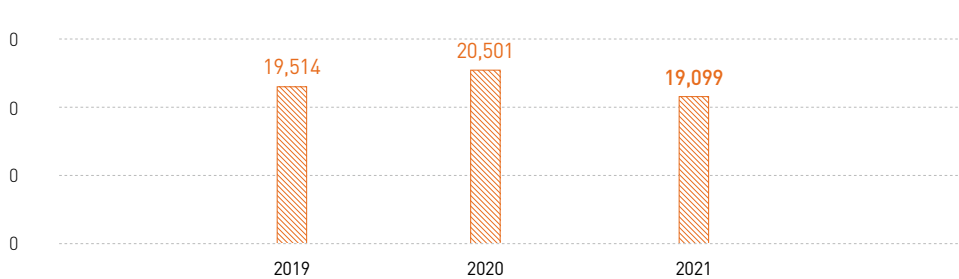
Green house Gas Target Management per Site

GHG Target Management

KGC’s Wonju and Buyeo plants have been designated as Greenhouse Gas (GHG) management sites and are implementing the target management system with annual targets for emission control. Designated in 2012, the Buyeo Plant started executing the strategy in 2013, while the Wonju Plant started implementation in 2020 after its designation in 2016. In 2021, both plants cut GHG emissions compared to the previous year by developing and applying GHG reduction methods, with the total emissions of 19,099tCO₂eq at the Wonju Plant and 18,125tCO₂eq at the Buyeo Plant. To control GHG emissions, KGC collects and analyzes electricity and fuel consumption per business site in real-time, managing the GHG emissions absolute amount and basic unit data. Furthermore, we are pursuing to analyze GHG emissions from each process and make further reductions through FEMS to cut GHG emissions.

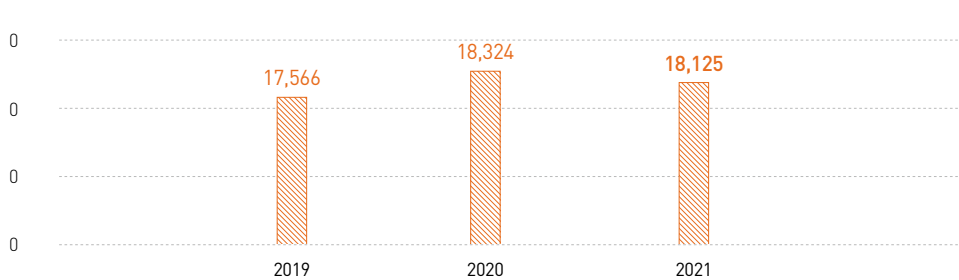
GHG emissions in Wonju Plant

(Unit: tCO₂eq)



GHG emissions in Buyeo Plant

(Unit: tCO₂eq)



Greenhouse Gas Reduction Activities

Wonju Plant

In 2021, the Wonju Plant reduced GHG emissions by 52tCO₂eq by changing the system at the automated logistics warehouse to supply steam to the roof fans below a specific temperature. The plant improved its energy efficiency by 1.1% and cut GHG emissions by 36tCO₂eq through chemical and physical methods to clean the boiler pipes for fixed combustion. In addition, the plant saved electricity by changing luminaries to LEDs and separating circuits, reducing GHG emissions by 277tCO₂eq. We are committed to searching for ways to reduce GHG emissions.

Buyeo Plant

The Buyeo Plant is engaged in various activities to cut GHG emissions. The plant reduced emissions by 109tCO₂eq by cleaning pipes of refrigerators and boilers in the process with chemical and physical methods. Replacement of old water pipes also saved steam and reduced GHG emissions by 16tCO₂eq. Adopting the integrated operation method for refrigerators also helped to reduce electricity consumption and cut indirect GHG emissions by 137tCO₂eq.

GHG reduction activities and performances in Buyeo Plant



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HUMAN RIGHTS MANAGEMENT

Human Rights Management System

Human Rights Management Policy

KGC is committed to respecting the human rights of all employees and stakeholders and realizing human rights management. To this end, we establish a healthy and sound organizational culture based on the international guidelines while identifying potential human rights issues and taking actions preemptively to respect and protect employees' human rights. Primarily, we are developing comprehensive improvement measures under the management's leadership to eradicate the three prohibited acts (sexual harassment, bullying, and reception of graft and entertainment), encompassing the institution, system, and awareness of employees. Representative measures to prevent the three prohibited acts include disciplinary actions taken by the central committee and strengthened HR review processes (convention of the Central HR Committee and reviews on the appointment authority), operation of external counseling program (employees' secret guaranteed and the company's full support for the counseling expenses), and launching of campaigns to raise awareness. In the future, we will constantly take action to strengthen the human rights management system and enhance the quality of our organizational culture.

Human Rights Management TFT

KGC has established the 'Organizational Culture Improvement TFT' through collaboration with related departments to develop an internal culture to respect human rights. The TFT for human rights management upgrades the system to respect and protect human rights and strengthens related processes by identifying and implementing measures to improve the internal culture based on the external and internal environment and KGC's business orientation. Furthermore, we launch company-wide campaigns to communicate and promote that all employees can express their opinions freely and ask for help in case of human rights infringement.

Fair Employment

KGC is implementing employment processes to hire talents focusing on their job capabilities for fair and reasonable employment, without paying attention to any factors that might shape prejudice, such as candidates' hometowns, family relations, or nationalities. When we have job interviews, interviewees receive codes not to reveal unrelated personal information, and interviewers take training to focus on candidates' job capabilities before interviews. Also, we give extra points at each employment stage to persons eligible for employment protection (patriots, veterans, and persons with disabilities).



Activities for Human Rights Risk Reduction

Activities for Human Rights Management

To strengthen human rights management, KGC added items about human rights respect into the multifaceted assessment for the leadership. We prevent secondary damages by upgrading the relief and protection processes for victims of human rights violations. In addition, we are working to establish a healthy and sound organizational culture with company-wide training and campaigns to raise awareness of employees.

Activities to strengthen human rights management



01 Multifaceted assessment for managers

Items to evaluate three prohibited acts are added to the multifaceted assessment for managers.

- New items include indexes for sexual harassment/bullying recognition and sensitivity, prevention of 3 prohibited acts, and efforts for a healthy organizational culture.



02 Support for counseling/treatment programs by an external organization

Counseling services with the external company (Hugyou) to keep confidentiality for victims

→ KGC provides the counseling expense of KRW 2 million, and victims can choose options to visit a center/have a counselor at the workplace/get counseling via phone or online (104 locations across the nation)



03 Awareness-raising training and campaigns

Training is provided to prevent workplace bullying or sexual harassment to raise awareness (Online training courses for all employees)

Human Rights Violation Reporting and Remedy Procedures

KGC has established a hotline service for direct communication with the CEO to prevent human rights violations and provide immediate responses for anyone who wants to report a human rights violation case. Anyone can report an issue through the organizational culture banner on the EIP main page. We are also monitoring any case of three prohibited acts through the grievance counselor system in each region and convening a standing committee with relevant departments (HR and Audit Offices) to resolve victims' issues.

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OCCUPATIONAL SAFETY AND HEALTH

Safety and Health Policy and System

Integrated Safety and Health Regulations

Under Article 25 of the Occupational Safety And Health Act (Preparation of Safety and Health Management Regulations), a business site with more than 100 employees must prepare and manage safety and health management regulations. In KGC, four business sites are subject to the act (Buyeo Plant, Wonju Plant, R&D Headquarters, and Metropolitan Business HQ Sales)). On January 1, 2022, KGC established standards applicable to all business sites and implemented company-wide integrated safety and health management regulations based on legal requirements, procedures, and management standards under the Serious Accidents Punishment Act. Also, individual business sites have and implement their guidelines for detailed management measures.

Creation of Industrial Safety Health Team

Per Article 4 (2) of the Enforcement Decree of the Serious Accidents Punishment Act (Measures for Establishment of Safety and Health Management System and Implementation Thereof), KGC reshuffled its organizational structure to create the Industrial Safety Health Team to control related issues. We also established relevant safety and health regulations and manuals. Based on these, in 2022, we are monitoring business sites and identifying improvement measures to upgrade the manuals and system.

Creation of Industrial Safety Health Team

- Serving as the unified communication channel of the safety and health management organization, and establishing the emergency management system
- Appointment of safety and health officials / unifying the appointment letter distribution processes
 - Provision of directions and R&R for safety and health officials
- Preparation and distribution of the company-wide industrial safety management organization chart
- Provision of employee training to raise awareness on safety and health
 - Regular training for managers/workers, checking whether safety and health officials completed the job training
- Inspection on Process Safety Management (PSM) sites
 - Identified 11 improvement measures at the Buyeo/Wonju plants
- Responses to the Serious Accidents Punishment Act
 - Establishment of business policies, assignment of safety/health professionals, budget allocation, establishment of response procedures for serious accidents

Safety and Health Certification (ISO 45001)

To preemptively prevent and manage any risk at a business site. KGC establishes and operates a related system. Wonju Plant acquired ISO45001 (Safety and health management system) in December 2020, and Buyo Plant is going through certification reviews. The Industrial Safety and Health Team plans to review the need for ISO45001 certification at other business sites, including the R&D institute and sales offices, and constantly proceed with certificate reviews. In the future, we'll continue to make efforts to strengthen the system for KGC's safety and health management.

Activities for Safety and Health

Potential Risk Management through Risk Assessment

KGS conducts risk assessment at all business sites at least once every half year per Article 36 of the Occupational Safety And Health Act (Conducting Risk Assessment) and Article 4 (3) of the Enforcement Decree Of The Serious Accidents Punishment Act (Measures for Establishment of Safety and Health Management System and Implementation Thereof). In 2021, KGC had consulting services targeting all business sites to check compliance with relevant safety and health laws and identified 139 issues to improve. In January 2022, we conducted risk assessment consulting for the Buyeo and Wonju plants and raw material supplying offices to develop detailed assessment standards per process. In addition, we regularly monitor the implementation of relevant safety and health laws, convening the Safety Health Committee and related councils, on-site inspections at business sites, providing regular training, and managing risks based on opinions from workers. In 2021, we focused on business sites without a safety and health management organization (Raw material offices and the Human Right Development Center) to minimize any accident risk.

We are committed to raising awareness of the safety and health of our employees by sharing a summary of the Serious Accidents Punishment Act, cascading accident cases, and providing training to those exempt from safety and health training. With the goal of zero serious accidents, KGC will continue to manage potential risks at all business sites, including hazardous machines/equipment, safety awareness of workers, etc.



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ETHICAL MANAGEMENT

Strengthening of Ethical Management System

KGC revised the KT&G group-wide Code of Conduct to establish detailed standards for action based on our business philosophy. We are working to raise awareness of ethics among our employees based on the criteria.

Ethical Management Activities



01

Ethical management training

To establish ethical management, we annually provide related training to all employees under our ethics regulations.

02

Pledge on ethics

With pledges to practice ethics and promise compliance with the Code of Ethics, all employees renew their commitment to actively participating in the ethical management pursued by the company and becoming familiar with the Code of Ethics.

03

Spreading ethics management to partners

For fair business trades with partner companies, KGC includes special terms of ethical practice in contracts to ensure partners get familiar with and comply with the Code of Ethics.

04

Shinmungo, web page to report unethical practices

We are operating the Shinmungo, a system to report unethical practices, on our homepage to promote ethical management, create healthy corporate culture, and prevent unethical acts.
(Website : <https://www.kgc.co.kr/sinmoongo/register.do>)

05

Creation and announcement of new Code of Conduct

KGC revised the KT&G group-wide Code of Conduct to establish detailed standards for action based on our business philosophy. At the Code of Conduct announcement ceremony, we expressed our commitment to ethical management across the group.

Compliance Monitoring

KGC’s Audit Office establishes annual audit plans to manage risks proactively. To conduct audits in specific fields, we categorize internal audits into preventive, theme-based, financial, and occasional audits according to the purposes. Also, the audit team evaluates the operation condition of the internal accounting management system annually at the end of the year from an independent point of view. The audit team verifies the effectiveness of the design and operation of control activities across the company and reports the results to the auditors. In discussion with relevant departments, such as Finance Office, the team takes improvement measures on issues identified during the evaluation.

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KT&G ESG Quantitative Data

Energy use

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Fuel (LNG, etc.)	TJ	616	626	678	626
	Electricity	TJ	1,457	1,463	1,577	1,552
	Steam	TJ	13	1	21	28
	Renewable Energy	TJ	-	-	2	3
	Subtotal	TJ	2,086	2,090	2,278	2,209
	Energy Intensity	TJ/ KRW 100 million	0.08	0.07	0.07	0.06
Overseas	Fuel (LNG, etc.)	TJ	46	53	53	54
	Electricity	TJ	99	115	118	136
	Steam	TJ	-	-	-	-
	Subtotal	TJ	145	168	171	190
Entire	Total	TJ	2,231	2,258	2,448	2,399

*Verification status: Third party verification completed within the aggregated scope of the business establishment
*Correction of data by changing the emission coefficient of overseas manufacturing sites by the third-party verification (power IEA, non-power IPCC)

GHG emissions

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Direct emissions (Scope 1)	tCO ₂ eq	33,022	33,549	36,430	33,744
	Indirect emissions (Scope 2)	tCO ₂ eq	70,821	71,082	77,429	75,418
	Total (Scope 1+2)	tCO ₂ eq	103,843	104,631	113,859	109,162
	GHG emission intensity (Scope 1+2)	tCO ₂ eq /KRW 100 million	3.96	3.56	3.31	3.13
Overseas	Direct emissions (Scope 1)	tCO ₂ eq	2,462	2,823	2,854	2,878
	Indirect emissions (Scope 2)	tCO ₂ eq	6,032	7,354	7,194	8,475
	Total (Scope 1+2)	tCO ₂ eq	8,495	10,178	10,049	11,353
Entire	Direct emissions (Scope 1)	tCO ₂ eq	35,484	36,372	39,284	36,622
	Indirect emissions (Scope 2)	tCO ₂ eq	76,853	78,436	84,623	83,894
	Total (Scope 1+2)	tCO ₂ eq	112,338	114,809	123,908	120,516

*Verification status: Third party verification completed within the aggregated scope of the business establishment
*Correction of data by changing the emission coefficient of overseas manufacturing sites by the third-party verification (power IEA, non-power IPCC)

GHG Emissions (Scope 3)

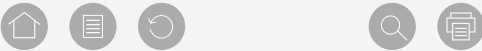
Scope	Subcategory	Unit	2018	2019	2020	2021
	Procured products and services	tCO ₂ eq	70,556	77,747	111,305	114,663
	Capital goods	tCO ₂ eq	-	-	24	8
	Fuel & energy related activities (excluding Scope 1&2)	tCO ₂ eq	-	-	3,452	3,240
	Upstream transport & distribution	tCO ₂ eq	-	-	5,630	5,054
	Waste from business sites	tCO ₂ eq	3,379	3,937	8,096	4,099
	Business trip	tCO ₂ eq	2,040	1,890	314	703
	Employee commuting	tCO ₂ eq	-	-	2,211	2,210
	Upstream lease assets	tCO ₂ eq	-	-	-	-
	Downstream transport & distribution	tCO ₂ eq	-	-	12,309	7,394
	Processing of sold products	tCO ₂ eq	-	-	-	-
	Use of sold products	tCO ₂ eq	3,055	1,620	1,592	2,067
	Disposal of sold products	tCO ₂ eq	10	5	25,675	25,787
	Downstream lease assets	tCO ₂ eq	-	-	-	-
	Franchise	tCO ₂ eq	-	-	-	-
	Investment	tCO ₂ eq	-	-	41,681	39,738
	Other Indirect emissions (Scope 3)	tCO ₂ eq	79,040	85,199	212,288	204,962

*Aggregation activities: 7 upstream items (purchased products and services, business trips by employees, etc.), 4 downstream items (transportation and distribution, product disposal, etc)
*Verification status: 3rd party verification based on greenhouse gas emission calculation framework, data management and collection, emission calculation and reporting process is completed
*Verification Principles: ISO 14064-3:2019 (Greenhouse Gas - Part 3: Rules and Guidelines for Evaluating and Verifying the Feasibility of the Greenhouse Gas Declaration)

Water consumption

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Water withdrawal amount (A)					
	-Waterworks	ton	420,533	439,861	489,651	444,569
	-Underwater	ton	93,646	103,929	104,618	93,777
	Total wastewater · water discharge(B)	ton	138,171	146,586	171,993	151,236
	Total water consumption (A-B)	ton	376,008	397,204	422,276	387,110
	Water recycling rate	ton	-	-	-	436
	Water use Intensity	ton/KRW 100 million	14.3	13.5	12.3	11.1
Overseas	Water withdrawal amount (A)					
	-Waterworks	ton	30,087	30,861	28,764	29,074
	-Underwater	ton	162,404	167,741	143,134	175,903
	Total effluents · water discharge(B)	ton	18,786	18,101	21,598	27,893
	Total water consumption (A-B)	ton	173,705	180,501	150,300	177,084
	Water recycling rate	ton	-	-	-	-
	Water use Intensity	ton/KRW 100 million	6.6	6.1	4.4	5.1
Entire	Total water consumption	ton	549,713	577,705	572,576	564,194

*Scope: domestic manufacturing sites(six), overseas manufacturing sites(three)
*Second party verification based on evidence such as all business sites notices within the scope is completed
*Amount of waste water discharged: Waste water discharging channel of all workplaces within the aggregated range (Gimcheon is calculated as the amount of waste water inflow)
* Water usage: GRI and CDP Water Guidance are applied according to water intake and discharge



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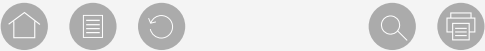
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Waste Emissions and Recycling

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Incineration	ton	1,133	1,557	3,652	2,248
	Landfill	ton	164	4	3	18
	Recycling	ton	5,887	6,602	5,351	6,482
	Others	ton	687	821	857	191
	Subtotal waste emitted	ton	7,871	8,984	9,863	8,939
	Waste recycling rate	%	74.8	73.5	54.3	72.5
	Waste emission intensity	ton/KRW 100 million	0.30	0.31	0.29	0.26
Overseas	Incineration	ton	12	8	7	151
	Landfill	ton	62	93	414	351
	Recycling	ton	686	934	1,225	940
	Subtotal waste emitted	ton	761	1,035	1,647	1,442
	Waste recycling rate	%	90.2	90.3	74.4	65.2
Entire	Total waste emitted	ton	8,632	10,019	11,509	10,382

*Scope: domestic manufacturing sites(six), overseas manufacturing sites(three)

Air pollutant emissions

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	NOx	ton		16.76	9.18	14.82
	SOx	ton		1.71	0.05	0.02
	Dust (PM)	ton		4.31	2.43	3.85
	Subtotal	ton		22.78	11.66	18.69

*Scope: domestic manufacturing sites(five),

*Verification status: Third party verification of Environmental Information Verification Center linked to Environmental Information Disclosure System completed

*The data verification confirmation for the previous year is December of the following year, and the data may be corrected according to the verification results.

Water pollutant emissions

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	BOD	ton		0.89	0.58	1.28
	COD	ton		3.56	2.11	1.97
	SS	ton		1.73	1.01	1.52
	T-N	ton		1.35	1.43	1.38
	T-P	ton		0.06	0.04	0.03
	Subtotal	ton		7.59	5.17	6.16

*Scope: domestic manufacturing sites(five),

*Verification status: Third party verification of Environmental Information Verification Center linked to Environmental Information Disclosure System completed

*The data verification confirmation for the previous year is December of the following year, and the data may be corrected according to the verification results.

Use of packaging materials

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Total weight of all plastic packaging ¹⁾	ton	1,792	1,761	1,903	1,795
	Percentage of recyclable plastic packaging ²⁾	%	96.0	95.7	95.6	95.6
	The ratio of packaging material (cost to sales cost)	%	12.3	12.1	11.3	10.2

1) Total weight of all plastic packaging

2) Percentage of reusable plastics among plastics (by weight)

Packaging materials

Scope	Packaging materials	Unit	Scope (cost to sales cost)	Recycled and certified materials(relative to total weight)
Domestic	Wood/paper fiber	%	88.6	100
	Metal (aluminum or steel)	%	5.4	0.6

*Use of 100% recycled and certified raw materials for paper/wood/fiber packaging by 2021(98% target in 2021)

*In 2021, the case of metal packaging materials, used 0.6% of recycled and certified raw materials, and replacement with recyclable paper packaging materials is currently being pursued

Purchase of eco-friendly packaging materials Status

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Recyclable Packaging Materials	Purchased Amount (in KRW 100 million)	259	268	292	282
		Rate (in weight basis)	93.3%	93.4%	93.0%	93.5%
	Renewable packaging materials	Purchased Amount (in KRW 100 million)	241	250	273	264
		Rate (in weight basis)	86.9%	87.4%	87.1%	87.6%
	Eco-friendly packaging materials*	Purchased Amount (in KRW 100 million)	259	268	292	282
		Rate (in weight basis)	93.3%	93.4%	93.0%	93.5%

*Base for calculating the purchase of eco-friendly materials has been updated per “2022 KT&G Sustainable Product Policy”.

*KT&G’s eco-friendly materials refer to bio-degradable materials, including recycled materials, recyclable materials, renewable materials, biomass materials, and compostable materials.

Environmental investment

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Environmental investment plan	KRW million	2,245	1,361	6,379	5,374
	Environmental investment practice	KRW million	1,957	1,718	6,615	6,011
	Execution rate	%	87.2	126	103.7	111.9

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Customer communication channel

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Online channel					
	Homepage	place	1	1	1	1
	Online customer center	place	-	-	1	1
	Kakao channel	place	-	-	1	1
	lil store	place	-	-	1	1
	Offline channel					
	lil minimulium	place	3	8	8	4
	Customer service (A/S) center	place	10	17	17	25
	lil station	place	31	40	98	100
	Visiting A/S	place	121	121	121	119
	Total	place	167	189	249	253

Customer satisfaction

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Percentage of satisfied customers	%	76	77	78	79

Employment

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Subtotal	person		4,386	4,331	4,311
Overseas	Turkey	person		78	79	84
	Indonesia	person		3,052	3,191	3,774
	Russia	person		131	139	180
	Others	person		193	185	57
	Subtotal	person		3,454	3,594	4,095
	Percentage of overseas employees	%		44.06	45.35	49
Entire	Total	person		7,840	7,925	8,406

*In 2021, the nationality of the employees is Korea 51.28%, Indonesia 44.8%, Russia 2.1%, and Turkey 1.0%.

*Status criteria for executives and employees: including full-time employees and fixed-term employees, as of 12.31 each year

Manager position

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Male executive directors	person		244	250	240
	Male senior managers	person		1,629	1,580	1,520
	Male junior managers	person		929	980	1,006
	Female executive directors	person		4	5	6
	Female senior managers	person		179	174	170
	Female junior managers	person		119	128	127

* Based on level 1 or higher for executive directors, level 2 to level 4 or higher for senior managers, and level 5 to level 6 for junior managers

Female employees

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Percentage of female employees	%		10.2	10.3	10.1
	Female employees in departments ¹⁾ generating profit	person		140	143	143
	Percentage of female employees in departments ¹⁾ generating profit	%		7.0	7.2	7.2
	Female employees in STEM ^{**2)} related positions	person		214	223	218
	Percentage of female employees in STEM ^{**2)} related positions	%		11.2	11.1	10.9
Overseas	Percentage of female employees	%		21.3	18.5	17.0
Entire	Percentage of female employees	%		15.1	14.0	13.2

1) Departments: generating profit: sales, marketing, NGP, global headquarters (including subsidiaries and institutions)

2) STEM-related departments include departments related to science, technology, engineering, and maths. This number is the number of female employees in STEM-related departments such as R&D, raw materials, manufacturing departments, PI promotion team, NGP development office, privacy office, IT office, and local plants.

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Average service period

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Male	year		17.1	17.3	17.4
	Female	year		15.3	14.6	14.9

Employment of persons with disabilities

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Employees with disabilities	person		140	126	104
	Employment rate for persons with disabilities	%		3.2	2.9	2.4

Age

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Under 30	person		433	457	528
	30-49	person		2,207	2,260	2,136
	50 and older	person		1,746	1,614	1,647
	Total	person		4,386	4,331	4,311

Equal wage

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Average gender wage gap	%		4.7	0.5	1.7
	Median gender wage gap	%		1.2	0.8	0.4
	Average gender incentive gap	%		8.1	5.1	2.0
	Median gender incentive gap	%		3.4	2.4	0.4

*Equal wage: the percentage of the average wage of women to men

*Based on wage of level-4 men/women

New employment

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Male	person	221	331	116	192
	Female	person	26	73	47	41
	Under 30	person	70	221	33	132
	30-49	person	106	138	90	58
	50 and older	person	71	45	40	43
	Executive directors	person	1	1	-	1
	Senior managers	person	7	18	14	3
	Junior managers	person	37	112	29	58
	Employee	person	202	273	120	171
	Total	person	247	404	163	233
	Internal recruiting (percentage)	%	98.3	96.6	95.9	98.7
Overseas	Total	person	956	1,853	1,674	1,723

* Data may be different from the previous year's report due to changes in data calculation criteria. (the 2020 report included dispatched employees, while the 2021 report does not include the dispatched employees)

Turnover

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Male	person	188	193	145	197
	Female	person	43	31	52	47
	Under 30	person	14	9	18	22
	30-49	person	24	25	33	39
	50 and older	person	193	190	146	183
	Executive directors	person	15	10	12	21
	Senior managers	person	130	108	105	116
	Junior managers	person	5	15	5	9
	Employee	person	81	91	75	98
	Total	person	231	224	197	244
	Turnover rate	%	5.6	5.1	4.5	5.7
	Voluntary turnover rate	%	0.9	0.9	0.7	0.8
Overseas	Total	person	998	1,269	1,497	1,255

CI (Culture Index) Diagnosis Results

Scope	Subcategory	Unit	2018	2020
Domestic	Engagement of Corporate Culture	%	82.20	82.95

*CI is an index to diagnose KT&G's corporate culture and consists of four areas: Corporate Vision, Leadership, Work style, and Relationships between members. It is assessed every other year.

*2020 target: 82.5%

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Male employees taking childbirth leave	person		73	54	74
	Female employees taking childbirth leave	person		18	20	18
	Rate of male returning to work after childbirth leave	%		100	100	100
	Rate of female returning to work after childbirth leave	%		100	100	100
	Male employees taking childcare leave	person		18	7	22
	Female employees taking childcare leave	person		22	18	24
	Rate of male returning to work after childcare leave	%		100	100	100
	Rate of female returning to work after childcare leave	%		100	100	92
	Rate of male retiring within 12 months after returning to work from childcare leave	%		11	14	13
	Rate of female retiring within 12 months after returning to work from childcare leave	%		-	-	-

*Men's and women's parental leave can be used for up to 2 years with a fee

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Union membership

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Employees eligible for membership	person		3,596	3,679	3,583
	Union members	person		3,596	3,679	3,583
	Union membership rate	%		100	100	100

*We corrected the data because the previous year's report includes the number of non-subject (executive, personnel department, etc.) employees

Employee training

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Total number of trainees	person	25,375	32,454	61,054	67,311
	By gender					
	• Male	person	-	-	-	59,894
	• Female	person	-	-	-	7,417
	Annual average training expense per employee	KRW thousand	1,050	1,387	1,030	1,079
	By gender					
	• Male	KRW thousand	-	-	-	1,075
	• Female	KRW thousand	-	-	-	1,122
	By position					
	• Executive directors	KRW thousand	-	-	-	8,457
	• Senior and associate director	KRW thousand	-	-	-	1,542
	• Manager	KRW thousand	-	-	-	1,406
	• Associate manager	KRW thousand	-	-	-	717
	• Staff	KRW thousand	-	-	-	356
	Education By type					
	• On the job training	KRW thousand	-	-	-	550
	• Leadership training	KRW thousand	-	-	-	260
	• General competency training	KRW thousand	-	-	-	487
	Annual average time spent on training per employee	hour	115	124	172	110
	By gender					
	• Male	hour	-	-	-	107
	• Female	hour	-	-	-	138
	By position					
	• Executive directors	hour	-	-	-	153
	• Senior and associate director	hour	-	-	-	126
	• Manager	hour	-	-	-	111
	• Associate manager	hour	-	-	-	119
	• Staff	hour	-	-	-	101
	Education By type					
	• On the job training	hour	-	-	-	43
	• Leadership training	hour	-	-	-	7
	• General competency training	hour	-	-	-	60

Performance evaluation

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Employees subject to evaluation	person		3,796	3,782	3,826
	Percentage of employees evaluated	%		97	95.6	95.1

Human rights protection

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Sexual harassment prevention training	person	2	1	1	2
	Employees who completed sexual harassment prevention training	person	3,945	3,950	3,977	8,031

Industrial accident

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Number of victims*	person	2	3	2	5
	Industrial accident rate	%	0.040	0.057	0.042	0.106
Overseas	Number of victims	person	5	11	15	0
	Industrial accident rate	%	0.171	0.318	0.417	0
Entire	Number of victims	case	7	14	17	5
	Total working hour	hour	15,055,196	16,523,120	17,013,529	22,022,745

*Daily workers included

Work loss

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	(Employee) LTIFR*	-	0.265	0.395	0.256	0.652
	(Partners) LTIFR*	-	1.204	2.856	1.547	2.841
Overseas	(Employee) LTIFR*	-	0.665	1.232	1.630	0
	(Partners) LTIFR*	-	0	0	0	0
Entire	(Employee) Total of LTIFR	-	0.465	0.847	0.999	0.227
	(Partner) Total of LTIFR	-	1.204	2.856	1.532	2.784

*LTIFR (Lost Time Injuries Frequency Rate) = (Number of accidents / Total labor hour) x 1,000,000

*No domestic or overseas deaths between 2018-2021

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ISO Certification Status

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	ISO14001 certification					
	-Certification rate	%		66.7	66.7	83.3
	- Number of worksites obtained the certification	place		4	4	5
	-Number of worksites eligible to obtain	place		6	6	6
	ISO9001 certification					
	-Certification rate	%		83.3	83.3	83.3
	- Number of worksites obtained the certification	place		5	5	5
	-Number of worksites eligible to obtain	place		6	6	6
	ISO45001 certification					
	-Certification rate	%		-	-	83.3
	- Number of worksites obtained the certification	place		-	-	5
	-Number of worksites eligible to obtain	place		-	-	6
	ISO50001 certification					
	-Certification rate	%		-	-	83.3
	- Number of worksites obtained the certification	place		-	-	5
	-Number of worksites eligible to obtain	place		-	-	6
	ISMS-P certification					
	-Certification rate	%		-	66.6	66.6
	Number of systems obtained the certification	place		-	4	4
	-Number of systems eligible to obtain	place		-	6	6
	ISO27001 certification					
	-Certification rate	%		83.3	83.3	100
	Number of systems obtained the certification	place		5	5	6
	-Number of systems eligible to obtain	place		6	6	6

Purchase and use of raw materials

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Purchasing of raw materials (leaf tobacco, tobacco sheet, auxiliary material)*	KRW million		288,833	281,820	245,963
	Raw materials consumption	ton		38,095	41,665	38,579

Leaf tobacco partner

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Domestic partners (farmers)	person		2,880	2,960	2,854
	Amount of domestic purchasing*	KRW 100 million		1,175	961	1,071
	Overseas partners	firm		19	19	20
	Amount of overseas purchasing*	KRW 100 million		1,713	1,858	1,389
	Total amount of purchasing	KRW 100 million		2,888	2,819	2,460

*Including purchasing of tobacco sheet from Tae-a Industrial (toll processing cost)

Purchase of entire domestic leaf tobacco

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Purchasing volume	ton		10,214	7,741	8,013
	Purchasing amount	KRW 100 million		965	745	802

NTM (Non-Tobacco Material) partners

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Domestic partners	firm		74	70	76
	Domestic purchasing	KRW 100 million		4,352	5,173	6,871
	Overseas partners	firm		12	10	11
	overseas purchasing	KRW 100 million		440	445	395
	Total number of partners	firm		86	80	87
	Total amount of purchasing	KRW 100 million		4,792	5,618	7,266

Support for partners

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Early payment of purchasing amount	KRW million		45,885	27,234	64,383

Haearin project

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Number of farmers	person		20	22	19
	Purchasing of dried red pepper	kg		10,488	11,640	10,680
	Purchasing amount of dried red pepper	KRW 100 million		1.58	2.95	2.03

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Social contribution

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic (by category)	Social responsibility (youth startup, SangSang Fund, CSR, sponsorship, etc.)	KRW 100 million		507	198	127.7
	Arts & culture (SangSang Madang, SangSang Univ., etc.)	KRW 100 million		343	297.7	218.1
	Scholarship foundation, welfare foundation, etc.	KRW 100 million		160	175.9	194.3
	Total	KRW 100 million		1,010	672	540.1
	Social contribution investment to sales	%		3.43	1.95	1.55
Domestic (by type)	Cash	KRW 100 million		913	531.8	410
	In kind	KRW 100 million		29	60.9	70.4
	Overhead cost	KRW 100 million		68	78.7	59.7

Board of Directors (BOD)

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Number of BOD meetings held	time		10	14	13
	Attendance rate of non-executive directors	%		98.3	100	97.2

Compensation

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Director compensation (all directors and auditors)	KRW million		2,403	2,330	5,111
	CEO salary	KRW million		1,177	1,173	2,557
	Average salary of employees	KRW million		80	88	90
	CEO salary compared with average employee salary	%		6.80	7.50	3.51
		time		14.71	13.33	28.41

ESG evaluation

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	KCGS	rating		A+	A	A
	MSCI	rating		BBB	A	AA
	Sustainvest	rating			AA	AA

*Based on all grades

R&D

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	R&D investment	KRW million		23,401	26,317	39,206
	R&D performance	case		48	59	61
	R&D reseacher	person		172	180	185
	Patents (owned)	case		401	514	781

* Data are different from the previous year as the criteria for calculating patent rights (holdings) have been expanded from Korea to overseas

Violation of laws and regulations

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Fair trade related legal sanctions	case		-	-	-
	Environment-related penalty	KRW thousand		4,400	8,400	800
	Violation of display advertising regulation	case		-	-	-
	Personal information infringement	case		-	-	-

*No ongoing investigations related to unfair trade

2021 Misconduct Reports Received

Scope	Subcategory	Unit	Breach of Data Security	Lending and borrowing money (Bribery)	Breach of Concurrent Employment Restrictions	Sexual harassment and bullying at work	Production claim
Domestic	Employees	Case	3	0	0	4	7
		Unit	Breach of the duty of fidelity	Breach of the duty of obedience	Breach of the duty of kindness and fairness	Undermining dignity/drunken driving	Other
		Case	43	1	0	16	1

* Limited to the headquarters, plants and regional branches of KT&G

*No investigation into corruption/bribery in the last 4 years (2018-2021) and ongoing

Disciplinary Actions in 2021

Scope	Subcategory	Unit	Termination	Suspension	Pay cut	Reprimand
Domestic	Employees	Person	1	5	5	8

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NGP

Scope	Subcategory	Unit	2018	2019	2020	2021
Entire	Unit sales of sticks	100 million sticks		25	26	43
	Market share in the stick market (domestic)	%		32	34	40
	NGP sales	KRW 100 million		2,265	2,792	5,040
	NGP sales growth (YoY)	%		29	23	81
	NGP's sales proportion in the tobacco business	%		8	10	18
	NGP sales markets	countries		1	4	24
	NGP patents applied	item		380	1,106	1,096
	-Domestic	item		188	349	392
	-Overseas	item		192	757	704
	NGP trademarks applied	item		1,572	688	354
	-Domestic	item		62	56	17
	-Overseas	item		1,510	632	337
	NGP design rights applied	item		281	71	87
	-Domestic	item		37	25	28
	-Overseas	item		244	46	59

Customer Information Protection

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Information leakage	case		-	-	-

VOCs by channel

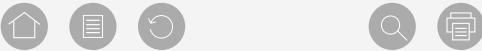
Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Phone counseling	case	208,657	262,760	183,585	134,050
	ARS	case	19,082	19,372	26,402	36,144
	1:1 counseling	case	10,128	19,996	10,258	17,834
	Chat counseling	case	-	-	1,185	5,291
	Total	case	237,867	302,128	221,430	193,319

VOCs by type

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic	Inquiry of product purchasing and location	case	27,621	29,916	21,157	11,702
	Discount coupon and homepage	case	3,597	11,349	9,443	5,039
	Inquiry of customer service (A/S)	case	184,726	237,383	174,380	165,792
	Claim on cigarettes	case	166	118	697	847
	Others (phone number, general)	case	21,757	23,362	15,753	9,939
	Total	case	237,867	302,128	221,430	193,319

CS Center (call center)

Scope	Subcategory	Unit	2018	2019	2020	2021
Domestic		place	1	1	1	1



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Energy use

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Fuel (LNG)	TJ	352	371	339
	Electricity	TJ	396	411	418
	Others	TJ	0.5	0.5	0.5
	Total	TJ	748	782	757
	Energy use Intensity	TJ/KRW 100 million	0.052	0.058	0.058
Overseas	Diesel (fixed combustion)	TJ	0.429	0.506	0.527
	subtotal	TJ/KRW 100 million	748.92	783.00	758.01
	Energy Intensity	TJ/KRW 100 million	0.05	0.06	0.06

GHG emissions

Scope	Subcategory	Unit	2019	2020	2021
Buyeo Plant	Direct emissions (Scope 1)	tCO ₂ eq	9,228	9,338	8,783
	Indirect emissions (Scope 2)	tCO ₂ eq	8,338	8,986	9,342
	Total (Scope 1+2)	tCO ₂ eq	17,566	18,324	18,125
Wonju Plant	Direct emissions (Scope 1)	tCO ₂ eq	8,636	9,518	8,437.82
	Indirect emissions (Scope 2)	tCO ₂ eq	10,879	10,984	10,661.32
	Total (Scope 1+2)	tCO ₂ eq	19,515	20,502	19,099.14
Overseas	Direct emissions (Scope 1)	tCO ₂ eq	30	35	37
	Indirect emissions (Scope 2)	tCO ₂ eq	956	802	887
	Total (Scope 1+2)	tCO ₂ eq	986.0	837.0	924.0
Entire	Direct emissions (Scope 1)	tCO ₂ eq	17,894	18,891	17,258
	Indirect emissions (Scope 2)	tCO ₂ eq	20,173	20,772	20,890
	Total (Scope 1+2)	tCO ₂ eq	38,067	39,663	38,148
	GHG emission intensity(Scope 1+2)	tCO ₂ eq/KRW 100 million	2.71	2.97	2.95

Environmental investment

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Environmental investment plan	KRW million	161.50	205.90	817.10
	Amount of environmental investments*	KRW million	258.00	585.90	888.40
	Execution rate	%	160	285	109

*Reinforcement of Environmental facilities (TMS, low Nox burners, air pollution prevention facilities, facility maintenance), GHG reduction activities

*Scope of domestic business sites: Headquarters, Buyeo, and Wonju business sites

*Scope of overseas business sites: China business site

Water consumption

Scope	Subcategory	Unit	2019	2020	2021
Buyeo Plant	Waterworks	ton	488,980	479,640	452,270
	underwater	ton	-	-	-
	Total	ton	488,980	479,640	452,270
	Water recycling	ton		30,000	26,250
Wonju Plant	Waterworks	ton	292,573	299,479	278,965
	underwater	ton	908	1,078	692
	Total	ton	293,481	300,557	279,657
	Water recycling	ton	19,428	24,516	17,213
	Water use Intensity(Buyeo+Wonju)	ton/ KRW 100 million	54.45	58.52	56.61
Overseas	Total	ton	61,526	38,851	46,548
Entire	Water use Intensity	ton/KRW 100 million	60.13	61.38	60.23

Waste Emissions and Recycling

Scope	Subcategory	Unit	2019	2020	2021
Buyeo Plant	Incineration	ton	5.550	18.700	7.890
	Landfill	ton	9.230	9.650	9.350
	Recycling	ton	885.540	14,459.330	1,436.090
	Others	ton			1.103
	Subtotal waste emitted	ton/ KRW 100 million	900.320	1,487.680	1,454.433
	Waste recycling rate	%	98.36	98.09	98.74
Wonju Plant	Incineration	ton		1.26	6.98
	Landfill	ton	222.24	288.73	208.24
	Recycling	ton	2835.72	2984.08	3113.23
	Subtotal waste emitted	ton	3057.96	3274.07	3328.45
	Waste recycling rate	%	92.73	91.14	93.53
Overseas	Total waste emitted	ton	91	75	80
Entire	Waste emission intensity	ton/ KRW 100 million	0.29	0.38	0.39

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Wonju Plant	NOx	ton	Non-target (Unable to check flow)	2.5	2.9
	SOx	ton	Uncounted	Uncounted	0.02
	Dust (PM)	ton	Uncounted	0.5	0.7
Buyeo Plant	NOx	ton	Non-target	6.95	5.59
	SOx	ton	Non-target	Non-target	0.00
	Dust (PM)	ton	0.19	0.07	0.11

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Water pollutant emissions

Scope	Subcategory		Unit	2019	2020	2021
Wonju Plant	BOD		ton	0.6	0.4	0.2
	COD		ton	3.0	2.0	1.0
	SS		ton	0.7	0.4	0.4
	T-N		ton	1.200	1.200	0.700
	T-P		ton	0.140	0.060	0.080
	Subtotal		ton	5.44	3.99	2.38
Buyeo Plant	BOD		ton	1.78	1.20	1.59
	COD		ton	4.77	-	-
	TOC		ton	-	5.23	5.24
	SS		ton	3.49	2.86	2.36
	T-N		ton	1.52	0.98	0.95
	T-P		ton	0.12	0.14	0.08
	Subtotal		ton	11.68	10.41	10.22
China plant	BOD		ton	2.50	1.60	1.90
	COD		ton	3.90	2.50	3.00

Employment

Scope	Subcategory		Unit	2019	2020	2021
Domestic	By gender	Male	person	915	914	898
		Female	person	787	763	767
	By age	Under 30	person	194	169	157
		30-49	person	1,045	1,007	968
		50 and older	person	463	501	540
		Total	person	1,702	1,677	1,665
Overseas	By gender	Male	person	13	16	18
		Female	person	1	1	2
	By age	Under 30	person	1	-	-
		30-49	person	11	14	18
		50 and older	person	2	3	2
		Total	person	14	17	20
Entire	By gender	Male	person	928	930	916
		Female	person	788	764	769
	By age	Under 30	person	195	169	157
		30-49	person	1,056	1,021	986
		50 and older	person	465	504	542
		Total	person	1,716	1,694	1,685

Female employees

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Percentage of female employees	%	46.24	45.50	46.07
Overseas	Percentage of female employees	%	7.14	5.88	10.00
Entire	Percentage of female employees	%	45.92	45.10	45.64

Employment of persons with disabilities

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Employees with disabilities	person	17	16	14
	Employment rate for persons with disabilities	%	0.96	0.95	0.84
Overseas	Employees with disabilities	person	-	-	-
	Employment rate for persons with disabilities	%	-	-	-
Entire	Employees with disabilities	person	17	16	14
	Employment rate for persons with disabilities	%	0.96	0.95	0.84

Average service period

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Male	year	13.76	14.18	14.37
	Female	year	13.02	13.95	14.37
Overseas	Male	year	15.39	15.09	16.01
	Female	year	1.29	2.29	6.15
Entire	Male	year	13.78	14.20	14.41
	Female	year	13.00	13.94	14.35

New employment

Scope	Subcategory		Unit	2019	2020	2021
Domestic	By gender	Male	person	80	32	30
		Female	person	58	23	37
	By age	Under 30	person	77	23	31
		30-49	person	33	20	24
		50 and older	person	28	12	12
		Total	person	138	55	67

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Turnover

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Male	person	9	7	14
	Female	person	9	9	9
	Total	person	18	16	23
	Turnover rate	%	1.13	1.01	1.46
	Voluntary turnover rate	%	1.13	1.01	1.46

*Full-time employees

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Male employees taking childbirth leave	person	6	32	30
	Female employees taking childbirth leave	person	33	28	18
	Rate of male returning to work after childbirth leave	%	100	100	100
	Rate of female returning to work after childbirth leave	%	100	96	100
	Male employees taking childcare leave	person	9	6	3
	Female employees taking childcare leave	person	52	35	24
	Rate of male returning to work after childcare leave	%	100	100	100
	Rate of female returning to work after childcare leave	%	98	100	100
	Rate of male retiring within 12 months after returning to work from childcare leave	%	33	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	4	6	-

Employee training

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Total number of trainees	person	13,516	15,436	21,969
	Male	person	6,737	8,148	11,681
	Female	person	6,779	7,288	10,288
	Annual average training expense per employee	KRW thousand	831	1,030	605
	Male	KRW thousand	831	1,030	605
	Female	KRW thousand	831	1,030	605
	Annual average time spent on training per employee	hour	55.2	27.3	50.6
	Male	hour	55.2	27.3	47.0
	Female	hour	55.2	27.3	54.7
Overseas	Total number of trainees	person	394	566	887
	Male	person	70	298	334
	Female	person	324	268	553
	Annual average training expense per employee	KRW thousand	342	113	132
	Male	KRW thousand	330	115	133
	Female	KRW thousand	339	235	125
	Annual average time spent on training per employee	hour	31	20	22
	Male	hour	33	18	21
	Female	hour	33	19	23
Entire	Total number of trainees	person	13,910	16,002	22,856
	Male	person	6,807	8,446	12,015
	Female	person	7,103	7,556	10,841
	Annual average training expense per employee	KRW thousand	1,173	1,144	737
	Male	KRW thousand	1,161	1,146	738
	Female	KRW thousand	1,170	1,266	730
	Annual average time spent on training per employee	hour	86	47	73
	Male	hour	88	45	68
	Female	hour	88	46	78

Union membership

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Employees eligible for membership	person	1,383	1,369	1,371
	Union members	person	1,383	1,369	1,371
	Union membership rate	%	100	100	100

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Industrial accident

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Number of victims*	person	1	2	3
	Industrial accident rate	%	0.05	0.10	0.18
	accident-related injuries	person	1	2	3
	disease-related injuries	case	0	0	0
	Total working hour	hour	3,594,240	3,521,440	3,344,520

*Daily workers included

Work loss

Scope	Subcategory	Unit	2019	2020	2021
Domestic	(Employee) LTIFR*	-	0.28	0.57	0.60
	(Partners) LTIFR*	-	0.67	0.33	0.00

Board of Directors (BOD)

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Number of BOD meetings held	time	9	8	10
	Attendance rate of non-executive directors	%	89	100	100

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	6,400
	Violation of display advertising regulation	case	-	-	-
	Personal information leakage	case	-	-	-

R&D

Scope	Subcategory	Unit	2019	2020	2021
Domestic	R&D investment	KRW million	12,246	11,259	12,234
	R&D performance	case	70	66	70
	Patents (owned)	case	229	257	265

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	1,638	1,444	1,694

Social contribution

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Total social contribution investment	KRW 100 million	8.7	9.2	10.1
	Social contribution investment to sales	%	1	1	1

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Energy use

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fuel (LNG)	TJ	25.7	20.7	15.8
	Electricity	TJ	40.5	35.5	31.3
	Total	TJ	66.2	56.2	47.1
	Energy use Intensity	TJ/KRW 100 million	0.03	0.03	0.02

*The 2020 Sustainability Report specified only the Jeonju Plant data, and the 2021 Sustainability Report specifies the total sum of 2019-2021 data from the Jeonju and Namyang Plants.

GHG emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	Direct emissions (Scope 1)	tCO ₂ eq	1,340.6	1,075.6	807.7
	Indirect emissions (Scope 2)	tCO ₂ eq	4,959.4	4,368.8	3,986.0
	Total (Scope 1+2)	tCO ₂ eq	6,300.0	5,444.4	4,793.7
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	2.9	2.6	2.4

Environmental investment

Scope	Subcategory	Unit	2019	2020	2021
Entire	Environmental investment plan	KRW million	475.0	1,231.0	1,089.0
	Environmental investment practice	KRW million	339.0	1,247.0	114.5
	Execution rate	%	71.4	101.3	10.5

Water consumption

Scope	Subcategory	Unit	2019	2020	2021
Entire	Waterworks	ton	124,121.0	105,257.0	92,913.0
	underwater	ton	5,523.0	0.0	0.0
	Total	ton	129,644.0	105,257.0	92,913.0
	Water recycling	ton	33,944.0	36,783.0	6,348.0
	Water use Intensity	ton/KRW 100 million	58.8	50.5	47.4

Waste Emissions and Recycling

Scope	Subcategory	Unit	2019	2020	2021
Namyang plant	Incineration	ton	155.8	167.3	213.6
	Landfill	ton	-	-	4.8
	Recycling	ton	-	6.1	10.2
	Subtotal waste emitted	ton	155.8	173.4	228.6
	Waste recycling rate	%	-	3.5	4.4
Jeonju plant	Incineration	ton	2,140.2	520.5	96.4
	Landfill	ton	265.3	145.8	56.4
	Recycling	ton	3,059.6	2,896.8	1,709.2
	Subtotal waste emitted	ton	5,465.1	3,563.1	1,862.0
	Waste recycling rate	%	56.0	81.3	91.8
Entire	Incineration	ton	2,296.0	687.8	309.9
	Landfill	ton	265.3	145.8	61.2
	Recycling	ton	3,059.6	2,902.9	1,719.4
	Total waste emitted	ton	5,620.9	3,736.5	2,090.5
	Waste recycling rate	%	54.4	77.7	82.2
	Waste emission intensity	ton/KRW 100 million	2.5	1.8	1.1

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Namyang plant	NOx	ppm	0.0	36.0	40.6
	SOx	ppm	0.0	4.3	1.9
	Dust (PM)	mg/Sm3	6.1	4.3	4.0
Jeonju plant	NOx	ppm	78.7	16.9	-
	SOx	ppm	0.0	0.3	-
	Dust (PM)	mg/Sm3	3.3	4.5	3.1
Entire	NOx	ppm	78.7	52.9	40.6
	SOx	ppm	0.0	4.5	1.9
	Dust (PM)	mg/Sm3	9.4	8.8	7.1

*The 2021 Sustainability Report corrected and specified 2019 and 2020 data errors of the 2020 Sustainability Report.

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Water pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Namyang plant	BOD	mg/L	0.6	1.9	1.9
	COD	mg/L	16.0	5.6	6.1
	SS	mg/L	3.0	0.7	-
	T-N	mg/L	13.2	11.4	13.9
	T-P	mg/L	-	0.7	1.1
	Subtotal	mg/L	32.7	20.3	22.9
Jeonju plant	BOD	mg/L	87.2	60.0	260.0
	COD	mg/L	142.0	96.0	290.0
	SS	mg/L	15.4	96.0	59.0
	T-N	mg/L	10.2	69.3	29.6
	T-P	mg/L	-	-	-
	Subtotal	mg/L	254.9	321.6	638.8
Entire	BOD	mg/L	87.8	61.9	261.9
	COD	mg/L	158.0	101.6	296.1
	SS	mg/L	18.4	96.7	59.0
	T-N	mg/L	23.4	80.6	43.6
	T-P	mg/L	-	0.7	1.1
	Total	mg/L	287.6	341.9	661.7

Employment

Scope	Subcategory	Unit	2019	2020	2021
Domestic	By gender	Male	person	485	462
		Female	person	161	167
	By age	Under 30	person	131	108
		30-49	person	449	443
		50 and older	person	66	79
		Total	person	646	629
		Percentage of female employees	%	24.9	26.7

Employment of persons with disabilities

Scope	Subcategory	Unit	2019	2020	2021
	Employees with disabilities	person	3	3	3
	Employment rate for persons with disabilities	%	0.5	0.5	0.5

Average service period

Scope	Subcategory	Unit	2019	2020	2021
Entire	Male	Year	9.9	11.0	11.2
	Female	Year	9.0	9.3	10.2

New employment

Scope	Subcategory	Unit	2019	2020	2021
Domestic	By gender	Male	person	49	19
		Female	person	31	17
	By age	Under 30	person	46	17
		30-49	person	33	18
		50 and older	person	1	1
		Total	person	80	36

Turnover

Scope	Subcategory	Unit	2019	2020	2021
Entire	Male	person	30	33	33
	Female	person	13	10	19
	Total	person	43	43	52
	Turnover rate	%	6.7	6.8	8.3
	Voluntary turnover rate	%	6.6	6.8	7.8

*Full-time employees

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Male employees taking childbirth leave	person	6	6	23
	Female employees taking childbirth leave	person	6	5	8
	Rate of male returning to work after childbirth leave	%	100.0	100.0	100.0
	Rate of female returning to work after childbirth leave	%	100.0	100.0	100.0
	Male employees taking childcare leave	person	1	-	-
	Female employees taking childcare leave	person	4	6	8
	Rate of male returning to work after childcare leave	%	-	-	-
	Rate of female returning to work after childcare leave	%	75.0	100.0	100.0



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Union membership

Scope	Subcategory	Unit	2019	2020	2021
Entire	Employees eligible for membership	person	476	455	454
	Union members	person	371	399	395
	Union membership rate	%	77.9	87.7	87.0

Employee training

Scope	Subcategory	Unit	2019	2020	2021
Entire	Total number of trainees	person	229	157	165
	Annual average training expense per employee	KRW thousand	448	146	234
	Annual average time spent on training per employee	hour	18.7	21.0	21.4

Performance evaluation

Scope	Subcategory	Unit	2019	2020	2021
Entire	Employees subject to evaluation	person	578	588	581
	Percentage of employees evaluated	%	89.5	93.3	92.4

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021
Entire	Sexual harassment prevention training	time	2	1	1
	Employees who completed sexual harassment prevention training	person	627	586	623

Social contribution

Scope	Subcategory	Unit	2019	2020	2021
Entire	Total social contribution investment	KRW 100 million	0.23	0.98	0.04
	Social contribution investment to sales	%	0.01	0.05	0.00

Industrial accident

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of victims	person	-	-	-
	Industrial accident rate	%	-	-	-
	accident-related injuries	case	-	-	-
	disease-related injuries	case	-	-	-
	Total working hour	hour	1,678,204	1,613,965	1,577,904

Work loss

Scope	Subcategory	Unit	2019	2020	2021
Entire	(Employee) LTIFR*	-	-	-	0.60

Board of Directors (BOD)

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of BOD meetings held	time	8	10	10
	Attendance rate of non-executive directors	%	100.0	93.9	93.3

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	1,600	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2019	2020	2021
Entire	R&D investment	KRW million	13,513	15,074	13,261
	R&D performance	case	48	36	16
	Patents (owned)	case	154	190	176

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Energy use

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fuel (LNG)	TJ	7.2	8.0	8.4
	Electricity	TJ	21.7	22.7	23.6
	Total	TJ	28.9	30.7	32.1
	Energy use Intensity	TJ/KRW 100 million	0.04	0.05	0.04

GHG emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	Direct emissions (Scope 1)	tCO ₂ eq	364	408	426
	Indirect emissions (Scope 2)	tCO ₂ eq	1,052	1,101	1,131
	Total (Scope 1+2)	tCO ₂ eq	1,416	1,508	1,558
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	1.98	2.30	2.16

Water consumption

Scope	Subcategory	Unit	2019	2020	2021
Entire	Waterworks	ton	23,737	29,866	28,437
	Total	ton	23,737	29,866	28,437
	Water use Intensity	ton/KRW 100 million	33.26	45.57	39.44

Waste Emissions and Recycling

Scope	Subcategory	Unit	2019	2020	2021
Entire	Incineration	ton	159	153	93
	Recycling	ton	255	263	279
	Total waste emitted	ton	413	416	372
	Waste emission intensity	ton/KRW 100 million	0.58	0.63	0.52

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Incheon Plant	NOx	ppm	-	-	25.70
	SOx	ppm	0.08	non-detection	0.55
	Dust (PM)	mg/Sm3	2.58	1.48	1.68

Water pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Incheon Plant	BOD	mg/L	4.30	15.45	5.4
	COD	mg/L	21.25	37.15	33.4
	SS	mg/L	4.80	17.65	15.1
	T-N	mg/L	18.27	6.81	12.54
	T-P	mg/L	0.022	0.047	0.063
	Total	mg/L	49	77	66



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Employment

Scope	Subcategory		Unit	2019	2020	2021
Entire	By gender	Male	person	122	129	129
		Female	person	137	134	135
	By age	Under 30	person	36	35	32
		30-49	person	158	169	170
		50 and older	person	65	59	62
		Total	person	259	263	264
	Percentage of female employees		%	53	51	51

Employment of persons with disabilities

Scope	Subcategory		Unit	2019	2020	2021
Entire	Employees with disabilities		person	5	5	5
	Employment rate for persons with disabilities		%	1.92	1.85	1.90

Average service period

Scope	Subcategory		Unit	2019	2020	2021
Entire	Male		Year	9.4	9.4	9.3
	Female		Year	9.7	9.6	8.9

New employment

Scope	Subcategory		Unit	2019	2020	2021
Domestic	By gender	Male	person	21	19	23
		Female	person	20	17	33
	By age	Under 30	person	22	10	22
		30-49	person	19	25	33
		50 and older	person	-	1	1
	Total		person	41	36	56

Turnover

Scope	Subcategory		Unit	2019	2020	2021
Entire	Male		person	14	10	19
	Female		person	20	16	32
	Total		person	34	26	51
	Turnover rate		%	14	10	20
	Voluntary turnover rate		%	99.6	96.4	97.6

*Full-time employees

Childbirth leave and childcare leave

Scope	Subcategory		Unit	2019	2020	2021
Domestic	Male employees taking childbirth leave		person	4	3	4
	Female employees taking childbirth leave		person	10	1	4
	Rate of male returning to work after childbirth leave)		%	100	100	100
	Rate of female returning to work after childbirth leave		%	100	100	100
	Male employees taking childcare leave		person	-	1	1
	Female employees taking childcare leave		person	8	2	5
	Rate of male returning to work after childcare leave		%	0	100	100
	Rate of female returning to work after childcare leave		%	88	100	100
	Rate of male retiring within 12 months after returning to work from childcare leave		%	0	0	0
	Rate of female retiring within 12 months after returning to work from childcare leave		%	50	50	0

Employee training

Scope	Subcategory		Unit	2019	2020	2021
Entire	Total number of trainees		person	21	39	88
	Male		person	18	34	47
	Female		person	3	5	41
	Annual average training expense per employee		KRW thousand	133	195	94
	Male		KRW thousand	150	207	98
	Female		KRW thousand	33	105	88
	Annual average time spent on training per employee		hour	8	13	9
	Male		hour	8	13	9
	Female		hour	4	11	10

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Performance evaluation

Scope	Subcategory	Unit	2019	2020	2021
Entire	Employees subject to evaluation	person	215	195	220
	Percentage of employees evaluated	%	70	66	70

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021
Entire	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	259	263	275

Industrial accident

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of victims	person	4	1	1
	Industrial accident rate	%	1.52	0.38	0.38
	accident-related injuries	case	4	1	1
	disease-related injuries	case	-	-	-
	Total working hour	hour	505,920	512,237	503,360

Work loss

Scope	Subcategory	Unit	2019	2020	2021
Entire	(Employee) LTIFR*	-	7.91	1.95	1.99

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2019	2020	2021
Entire	R&D investment	KRW million	422	273	426
	R&D performance	case	85	121	192
	Patents(owned) + published papers	case	2	1	4

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Energy use

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fuel (LNG)	TJ	220	229	246
	Electricity	TJ	131	137	146
	Total	TJ	351	367	392
	Energy use intensity	TJ/KRW 100 million	1.8	1.7	1.6

GHG emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	Direct emissions (Scope 1)	tCO ₂ eq	17,499	18,188	19,569
	Indirect emissions (Scope 2)	tCO ₂ eq	-	-	-
	Total (Scope 1+2)	tCO ₂ eq	17,499	18,188	19,569
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	91.7	83.6	77.5

Environmental investment

Scope	Subcategory	Unit	2019	2020	2021
Entire	Environmental investment plan	KRW million	461	818	1,140
	Environmental investment practice	KRW million	510	704	838
	Execution rate	%	111	86	73

Water consumption

Scope	Subcategory	Unit	2019	2020	2021
Entire	Waterworks	ton	459,505	445,096	439,106
	underwater	ton	18,559	12,949	8,625
	Total	ton	478,064	458,045	447,731
	Water use intensity	ton/KRW 100 million	2,504	2,105	1,774

Waste emissions and recycling

Scope	Subcategory	Unit	2019	2020	2021
Entire	Incineration	ton	143	131	194
	Recycling	ton	5,618	5,760	5,733
	Total waste emitted	ton	5,761	5,892	5,927
	Waste recycling rate	%	97.5	97.8	96.7
	Waste emission intensity	ton/KRW 100 million	30.2	27.1	23.5

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Daejeon plant	NOx	ppm	-	28.0	15.0
	Dust (PM)	mg/Sm3	6.9	4.7	3.4
Gimcheon plant	NOx	ppm	21.7	23.1	23.5
	SOx	ppm	0.2	0.2	0.5
	Dust (PM)	mg/Sm3	2.1	1.5	1.6

Water pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Daejeon plant	BOD	mg/L	14.2	13.0	5.3
	COD	mg/L	77.0	86.0	87.2
	SS	mg/L	16.0	17.0	11.0
	T-N	mg/L	14.3	16.4	12.7
	T-P	mg/L	0.2	0.1	0.1
Gimcheon plant	BOD	mg/L	6.4	4.1	4.0
	COD	mg/L	46.4	30.5	28.3
	SS	mg/L	12.4	10.4	9.4
	T-N	mg/L	16.1	11.0	0.2
	T-P	mg/L	1.0	0.7	0.4

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Employment

Scope	Subcategory		Unit	2019	2020	2021
Entire	By gender	Male	person	88	94	106
		Female	person	6	6	6
	By age	Under 30	person	15	14	20
		30-49	person	54	62	70
		50 and older	person	25	24	21
		Total	person	94	100	112
	Percentage of female employees		%	6.4	6.0	5.4

Employment of persons with disabilities

Scope	Subcategory		Unit	2019	2020	2021
Entire	Employees with disabilities		person	1	1	1
	Employment rate for persons with disabilities		%	1.1	1.0	0.9

Average service period

Scope	Subcategory		Unit	2019	2020	2021
Entire	Male		year	7	7	7
	Female		year	14	15	12

New employment

Scope	Subcategory		Unit	2019	2020	2021
Entire	By gender	Male	person	22	12	18
		Female	person	1	-	1
	By age	Under 30	person	9	3	10
		30-49	person	13	7	8
		50 and older	person	1	1	1
	Total		person	23	12	19

Turnover

Scope	Subcategory		Unit	2019	2020	2021
Entire	Male		person	4	6	9
	Female		person	1	-	-
	Total		person	5	6	9
	Turnover rate		%	6.6	6.4	9.0
	Voluntary turnover rate		%	2.6	4.3	4.0

*Full-time employees

Childbirth leave and childcare leave

Scope	Subcategory		Unit	2019	2020	2021
Entire	Male employees taking childbirth leave		person	3	2	6
	Female employees taking childbirth leave		person	-	-	1
	Rate of male returning to work after childbirth leave		%	100	100	100
	Rate of female returning to work after childbirth leave		%	-	-	-
	Male employees taking childcare leave		person	-	-	1
	Female employees taking childcare leave		person	-	-	1

Union membership

Scope	Subcategory		Unit	2019	2020	2021
Entire	Employees eligible for membership		person	75	81	85
	Union members		person	75	81	85
	Union membership rate		%	100	100	100

Employee training

Scope	Subcategory		Unit	2019	2020	2021
Entire	Total number of trainees		person	340	403	491
	Male		person	313	378	464
	Female		person	27	25	27
	Annual average training expense per employee		KRW thousand	123	84	96
	Male		KRW thousand	122	85	96
	Female		KRW thousand	136	69	85
	Annual average time spent on training per employee		hour	25	24	28
	Male		hour	25	24	28
	Female		hour	26	20	26

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Performance evaluation

Scope	Subcategory	Unit	2019	2020	2021
Entire	Employees subject to evaluation	person	91	97	109
	Percentage of employees evaluated	%	100	100	100

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021
Entire	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	112	120	131

Industrial accident

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of victims	person	1	2	-
	Industrial accident rate	%	1.33	2.22	-
	accident-related injuries	case	1	2	-
	disease-related injuries	case	-	-	-
	Total working hour	hour	182,987	193,139	207,913

Work loss

Scope	Subcategory	Unit	2019	2020	2021
Entire	(Employee) LTIFR*	-	5	10	-

Board of Directors (BOD)

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of BOD meetings held	time	8	8	8
	Attendance rate of non-executive directors	%	100	87.5	100

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	14,131	2,480
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

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Energy use

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fuel (LNG)	TJ	45	56	56
	Electricity	TJ	57	68	63
	Total	TJ	102	124	119
	Energy use Intensity	TJ/KRW 100 million	0.80	0.89	0.77

GHG emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	Direct emissions (Scope 1)	tCO ₂ e	2,261	2,838	2,834
	Indirect emissions (Scope 2)	tCO ₂ e	2,773	3,279	3,021
	Total (Scope 1+2)	tCO ₂ e	5,035	6,117	5,855
	GHG emission intensity (Scope 1+2)	tCO ₂ e/KRW 100 million	39.6	44.0	38.0

Water consumption

Scope	Subcategory	Unit	2019	2020	2021
Entire	Waterworks	ton	30,644	38,224	37,012
	underwater	ton	55,883	83,157	82,949
	Total	ton	86,527	121,381	119,961
	Water use Intensity	ton/KRW	681	873	779

Waste Emissions and Recycling

Scope	Subcategory	Unit	2019	2020	2021
Entire	Incineration	ton	4,572	9,780	4,806
	Recycling	ton	2,192	2,993	2,513
	Total waste emitted	ton	6,764	12,773	7,319
	Waste recycling rate	%	32.4	23.4	34.3
	Waste emission intensity	ton/KRW	53	92	50,806

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	NOx	ppm	1.2	0.8	4.7
	SOx	ppm	15	4	44
	Dust (PM)	mg/Sm3	3	3	2

Water pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021
Entire	BOD	mg/L	1.9	3.8	5
	COD	mg/L	14.8	19.7	23.5
	SS	mg/L	1.8	3.7	14.8
	T-N	mg/L	1.82	1.75	2.37
	T-P	mg/L	0.202	0.098	0.031
	Total	mg/L	20.522	29.048	45.703

Employment

Scope	Subcategory		Unit	2019	2020	2021
Entire	By gender	Male	person	74	74	73
		Female	person	6	8	9
	By age	Under 30	person	9	11	13
		30-49	person	61	59	54
		50 and older	person	10	12	15
		Total	person	80	82	82

Average service period

Scope	Subcategory	Unit	2019	2020	2021
Entire	Male	year	4	5	6
	Female	year	3	3	3

New employment

Scope	Subcategory		Unit	2019	2020	2021
Entire	By gender	Male	person	6	9	7
		Female	person	1	3	2
	By age	Under 30	person	-	10	5
		30-49	person	7	2	4
		50 and older	person	-	-	-
		Total	person	7	12	9

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Turnover

Scope	Subcategory	Unit	2019	2020	2021
Entire	Male	person	10	8	9
	Female	person	2	1	2
	Total	person	12	9	11
	Turnover rate	%	15	11	14
	Voluntary turnover rate	%	100	100	100

*Full-time employees

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2019	2020	2021
Domestic	Male employees taking childbirth leave	person	1	-	1
	Female employees taking childbirth leave	person	1	-	1
	Rate of male returning to work after childbirth leave	%	100		100
	Rate of female returning to work after childbirth leave	%	-	-	100
	Male employees taking childcare leave	person	1	-	-
	Female employees taking childcare leave	person	1	-	1
	Rate of male returning to work after childcare leave	%	100	-	-
	Rate of female returning to work after childcare leave	%	100	-	-
	Rate of male retiring within 12 months after returning to work from childcare leave	%	100	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	-	-	-

Employee training

Scope	Subcategory	Unit	2019	2020	2021
Entire	Total number of trainees	person	23	33	30
	Male	person	21	31	29
	Female	person	2	2	1
	Annual average training expense per employee	KRW thousand	160	174	154
	Male	KRW thousand	164	175	154
	Female	KRW thousand	114	160	150
	Annual average time spent on training per employee	hour	13	14	12
	Male	hour	13	14	12
	Female	hour	8	8	8

Performance evaluation

Scope	Subcategory	Unit	2019	2020	2021
Entire	Employees subject to evaluation	person	44	42	45
	Percentage of employees evaluated	%	52	54	54

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021
Entire	Sexual harassment prevention training	time	4	7	6
	Employees who completed sexual harassment prevention training	person	81	82	80

Board of Directors (BOD)

Scope	Subcategory	Unit	2019	2020	2021
Entire	Number of BOD meetings held	time	7	6	6
	Attendance rate of non-executive directors	%	93	100	100

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2019	2020	2021
Entire	R&D investment	KRW million	612	518	341
	R&D performance	case	11	17	10



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Consolidated Balance Sheet

	2019	2020	2021
Assets			
Current assets	6,417,221	6,750,383	6,255,862
Cash and cash equivalents	891,306	1,253,611	946,571
Current other financial assets	397,949	407,735	457,057
Current financial assets at fair value through profit or loss	1,239,263	914,424	965,384
Trade and other receivables	1,023,386	1,215,049	1,012,741
Derivative assets	2,277	12,710	580
Inventories	2,447,243	2,535,032	2,375,381
Refund assets and others	3,027	1,055	1,795
Accrued tobacco excise and other taxes	291,482	271,577	324,920
Advance payments	83,696	96,526	98,045
Prepaid expenses	33,345	39,982	53,263
Assets held for sale	4,247	2,681	20,124
Non-current assets	4,335,218	4,718,001	5,381,410
Long-term other financial assets	4,480	10,129	9,001
Long-term deposits in MSA Escrow Fund	751,437	909,794	1,250,468
Long-term financial assets measured at fair value through profit or loss	251,895	253,562	304,816
Long-term trade and other receivables	77,062	97,409	94,760
Long-term financial assets measured at fair value through other comprehensive income or loss	257,640	239,539	228,398
Property, plant and equipment	49,393	132,187	242,992
Tangible assets	1,753,739	1,718,412	1,741,042
Intangible assets	129,624	134,084	145,719
Investment properties	885,325	1,030,179	1,150,980
Right-of-use assets	45,484	49,088	36,445
Long-term advance payments	72,519	83,059	104,560
Long-term prepaid expenses	7,465	9,579	8,539
Deferred income tax assets	49,153	50,933	52,555
Net defined benefit assets	-	46	11,136
Total Assets	10,752,439	11,468,383	11,637,271

(Unit: KRW in millions)

	2019	2020	2021
Liability			
Current liabilities	1,600,094	1,991,492	2,063,946
Short-term borrowings	27,066	17,308	75,432
Current portion of long-term borrowings	5,285	37,506	2,166
Trade and other payables	656,583	969,202	971,120
Current lease liabilities	18,909	19,880	17,181
Derivative liabilities	-	57	908
Advance receipts	77,029	100,837	21,918
Current refund liabilities and provisions	26,667	27,509	26,130
Current income tax liabilities	212,538	234,566	236,397
Tobacco excise and other taxes payables	576,018	584,576	712,693
Liabilities held for sale	-	51	-
Non-current liabilities	412,760	385,319	364,463
Long-term borrowings	90,954	53,492	53,195
Long-term trade and other payables	59,638	49,480	57,434
Long-term lease liabilities	24,397	25,829	19,377
Long-term advance receipts	4,155	8,193	5,077
Net defined benefit liabilities	91,083	112,959	57,736
Long-term refund liabilities and provisions	3,090	3,192	5,222
Deferred income tax liabilities	136,608	130,558	148,105
Non-controlling interests liabilities	2,836	1,615	18,317
Total liabilities	2,012,854	2,376,811	2,428,409
Equity:			
Share capital	8,684,217	9,036,851	9,158,786
capital	954,959	954,959	954,959
Other capital surplus	4,498	4,498	4,498
Treasury shares	(318,789)	(531,618)	(879,982)
Gain on sale of treasury shares	528,894	528,894	528,894
Reserve	5,680,009	5,977,643	6,490,161
Retained earnings(loss)	1,834,646	2,102,475	2,060,255
Non-controlling interests	55,369	54,721	50,076
Total equity	8,739,585	9,091,572	9,208,862
Total liabilities and equity	10,752,439	11,468,383	11,637,271

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	(Unit: KRW in millions)		
	2019	2020	2021
Sales	4,807,659	5,055,311	5,228,352
Cost of sales	1,966,662	2,127,074	2,350,180
Gross profit	2,840,998	2,928,237	2,878,172
Sales, general and administrative expenses	1,466,338	1,455,054	1,539,788
Operating profit	1,374,660	1,473,183	1,338,383
Other income	105,870	289,353	188,398
Other expense	109,437	266,387	144,991
Financial income	96,693	117,739	78,753
Financial cost	13,681	13,161	31,901
Share of net profit of associates and joint ventures	1,541	4,135	10,911
Profit before income tax	1,455,647	1,604,862	1,439,553
Corporate tax expense	421,705	438,493	415,441
Profit from Continuing Operations	1,033,942	1,166,369	1,024,113
Profit from Discontinued Operations	3,257	5,274	[52,354]
Profit for the year	1,037,199	1,171,643	971,759
Other comprehensive income (loss) after income tax	19,464	[49,877]	89,479
item that will not be reclassified to profit or loss	[3,602]	[26,802]	54,412
Re-measurements of net defined benefit liabilities	[10,425]	[16,212]	42,562
Gain (loss) on valuation of fair value through other comprehensive income or loss	6,923	[10,548]	11,843
Capital changes in equity method	[100]	[42]	7
item that will be reclassified to profit or loss	23,066	[23,074]	35,067
Exchange differences on translating foreign operations	23,066	[23,241]	35,086
Capital changes in equity method	0	167	[19]
Total comprehensive income for the year	1,056,662	1,121,766	1,061,238
Profit attributable to:			
Owners of the Parent Company	1,035,003	1,171,734	977,259
Profit from Continuing Operations	1,029,613	1,166,460	1,031,746
Profit from Discontinued Operations	3,257	5,274	[52,354]
Non-controlling interests	2,195	[91]	[5,500]
Profit from Continuing Operations	2,195	[91]	[5,500]
Profit from Discontinued Operations	0	0	0
Other comprehensive income for the year attributable to:			
Owners of the Parent Company	1,054,895	1,122,415	1,065,882
Profit from Continuing Operations	1,050,953	1,118,989	1,117,672
Profit from Discontinued Operations	3,941	3,425	[51,789]
Non-controlling interests	1,768	[648]	[4,645]
Profit from Continuing Operations	1,768	[648]	[4,645]
Profit from Discontinued Operations	0	0	0
Earnings per Share			
Basic & Diluted (Unit: KRW)	8,196	9,320	7,898
Profit from Continuing Operations (Unit: KRW)	8,170	9,278	8,321
Profit from Discontinued Operations (Unit: KRW)	26	42	[423]

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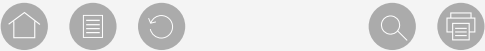
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Consolidated statements of changes in equity

(Unit: KRW in millions)

	Equity								
	Share Capital							Non-controlling interests	Total Capital
	capital	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserve	Retained earnings	Total capital attributable to the owners of the Parent Company		
Balance at January 1, 2019	954,959	4,334	- 328,157	513,776	5,364,157	1,605,334	8,114,403	53,800	8,168,204
Effect of changes in accounting policy	-	-	-	-	-	-4,670	-4,670	-	-4,670
Profit for the year	-	-	-	-	-	1,035,003	1,035,003	2,195	1,037,199
Other comprehensive income (loss) after income tax	-	-	-	-	29,886	-9,995	19,891	-428	19,464
Dividends	-	-	-	-	-	-505,061	505,061	-	-505,061
Gain (loss) on treasury share transactions	-	-	9,368	15,118	-	-	24,486	-	24,486
Gain (loss) on disposal of retained earnings	-	-	-	-	285,966	-285,966	-	-	-
Changes in non-controlling interests, etc	-	164	-	-	-	-	164	-199	-36
Balance at December 31, 2019	954,959	4,498	-318,789	528,894	5,680,009	1,834,646	8,684,217	55,369	8,739,585
Balance at January 1, 2020	954,959	4,498	-318,789	528,894	5,680,009	1,834,646	8,684,217	55,369	8,739,585
Effect of changes in accounting policy	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	1,171,734	1,171,734	-91	1,171,643
Other comprehensive income (loss) after income tax	-	-	-	-	-33,666	-15,654	-49,320	-557	-49,877
Dividends	-	-	-	-	-	-556,952	-556,952	-	-556,952
Gain (loss) on treasury share transactions	-	-	-212,829	-	-	-	-212,829	-	-212,829
Gain (loss) on disposal of retained earnings	-	-	-	-	331,300	-331,300	-	-	-
Changes in non-controlling interests, etc	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	954,959	4,498	-531,618	528,894	5,977,643	2,102,475	9,036,851	54,721	9,091,572
Balance at January 31, 2021	954,959	4,498	-531,618	528,894	5,977,643	2,102,475	9,036,851	54,721	9,091,572
Effect of changes in accounting policy	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	977,259	977,259	-5,500	971,759
Other comprehensive income (loss) after income tax	-	-	-	-	47,880	40,743	88,624	855	89,479
Dividends	-	-	-	-	-	-595,584	595,584	-	-595,584
Gain (loss) on treasury share transactions	-	-	- 348,364	-	-	-	-348,364	-	-348,364
Gain (loss) on disposal of retained earnings	-	-	-	-	464,638	-464,638	-	-	-
Changes in non-controlling interests, etc	-	-	-	-	-	-	-	-	-
Balance at December 31, 2021	954,959	4,498	-879,982	528,894	6,490,161	2,060,255	9,158,786	50,076	9,208,862

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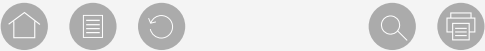
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Consolidated statements of cash flows

	2019	2020	2021
Consolidated statements of cash flows	1,042,489	1,261,665	1,419,821
Cash generated from operations	1,464,083	1,685,603	1,832,611
Income taxes paid	(421,593)	(423,938)	(412,790)
Cash flows from investing activities	(459,191)	(85,835)	(797,610)
Interest received	19,146	19,927	10,842
Dividends received	24,693	26,140	28,903
Decrease in other financial assets	534,003	562,840	322,158
Decrease in current financial assets measured at fair value through profit or loss	-	346,404	158
Decrease in long-term financial assets measured at fair value through profit or loss	15,892	33,667	21,261
Decrease in long-term deposits in MSA Escrow Fund	-	30,191	461
Disposal of property, plant and equipment	3,738	4,814	5,326
Disposal of intangible assets	1,100	2,639	152
Disposal of investment properties	-	4,407	440
Disposal of assets held for sale	-	144,712	663
Decrease in financial assets measured at fair value through other comprehensive income or loss	-	3,134	15,895
Disposal of investments in associates and joint ventures	34,151	21,208	-
Collection of loans	12,321	14,315	21,163
Collection of guarantee deposits	1,212	694	5,939
Collection of finance lease receivables	75	488	79
Increase in other financial assets	(343,223)	(578,456)	(371,913)
Increase in current financial assets measured at fair value through profit or loss	(57,593)	(6,000)	(41,743)
Increase in long-term financial assets measured at fair value through profit or loss	(54,677)	(14,423)	(80,708)
Decrease in financial assets measured at fair value through other comprehensive income or loss	0	0	(3,500)
Increase in long-term deposits in MSA Escrow Fund	(114,412)	(223,125)	(247,624)
Acquisition of property, plant and equipment	(222,248)	(216,059)	(224,443)
Acquisition of intangible assets	(34,948)	(35,744)	(43,671)
Acquisition of investment properties	(256,285)	(86,158)	(109,650)
Acquisition of right-of-use assets	0	(522)	(181)

(Unit: KRW in millions)

	2019	2020	2021
Acquisition of assets held for sale	0	(3,283)	0
Acquisition of investments in associates and joint ventures	0	(101,500)	(79,786)
Increase in loans	(19,004)	(35,189)	(27,337)
Increase in guarantee deposits	(3,133)	(956)	(493)
Cash flows from financing activities	(632,146)	(808,888)	(947,574)
Dividends paid	(505,061)	(556,952)	(595,584)
Interest paid	(3,581)	(3,372)	(3,205)
Repayment of lease liabilities	(18,604)	(21,187)	(23,279)
Repayment of borrowings	(307,061)	(165,109)	(144,221)
Acquisition of treasury shares	0	(212,829)	(348,364)
Capital increase with consideration	-	1	-
Increase in borrowings (repayment)	202,160	150,559	164,078
Increase in non-controlling interest	-	-	3,000
Net increase(decrease) in cash and cash equivalents	(48,847)	366,942	(325,362)
Cash and cash equivalents at January 1	932,969	891,306	1,253,611
Effect of exchange rate fluctuations on foreign currency denominated cash and cash equivalents	7,184	(4,636)	18,322
Cash and cash equivalents at December 31	891,306	1,253,611	946,571

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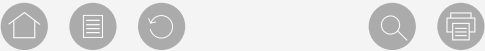
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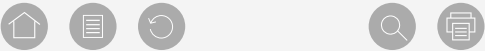
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	403-03	Workers with high incidence or high risk of diseases related to their occupation	83~88
	403-04	Worker participation, consultation, and communication on occupational health and safety	84
	403-05	Worker training on occupational health and safety	85, 87
	403-06	Promotion of worker health	88
	403-07	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	85~87
	403-08	Workers covered by an occupational health and safety management system	84, 87~88
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	405-02	Ratio of basic salary and remuneration of women to men	77, 80
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FOOD&BEVERAGE SECTOR-TOBACCO

Code	Topic	Accounting metric	Category	Unit of measure	Page
Topic	Public Health	(1) Gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products	Quantitative	KRW	33,140
Accounting metric		Discussion of the process to assess risks and opportunities associated with “tobacco harm reduction” products	Discussion and Analysis	n/a	31~35,38~40
Category	Marketing Practices	Total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices	Quantitative	KRW	37
Unit of measure		Description of the company’s marketing policy and relevant positions on Articles 11 and 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)	Discussion and Analysis	n/a	36~37

ACTIVITY METRICS

Code	Accounting metric	Category	Unit of measure	Page
FB-TB-000.A	Combustible tobacco product sales volume: (1) cigarette, (2) cigar, and (3) other smoked tobacco products	Quantitative	KRW	10, 12
FB-TB-000.B	Non-combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products	Discussion and Analysis	n/a	33,140

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Classification	Recommended disclosures	Page
Governance	Describe the board’s oversight of climate-related risks and opportunities.	23
	Describe management’s role in assessing and managing climate-related risks and opportunities.	23
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	50
	Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	50
	Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	50, 51
Risk Management	Describe the organization’s processes for identifying and assessing climate-related risks.	TCFD Report 5Page
	Describe the organization’s processes for managing climate-related risks.	TCFD Report 5Page
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management	TCFD Report 5Page
Metrics and Targets	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	45, 47, 50, 51
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	49~51
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	45, 47, 50, 51

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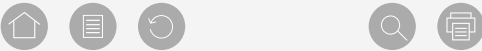
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Area	Category	Identification No.	Item	Page
Information Disclosure	Information disclosure format	P-1-1	Method of ESG information disclosure	2
		P-1-2	Cycle of ESG information disclosure	2
		P-1-3	Scope of ESG information disclosure	2
	Information disclosure content	P-2-1	ESG Key Issues and KPIs	26
	Verification of information disclosure	P-3-1	Verification of ESG information disclosure	173~174
Environment	Environmental management objectives	E-1-1	Establishment of environmental management objectives	22, 44
		E-1-2	Implementation measures for environmental management	45~46
	Raw and secondary materials	E-2-1	Consumption of raw and secondary materials	138
		E-2-2	Percentage of renewable raw and secondary materials	55
	GHG	E-3-1	GHG emissions (Scope1 & Scope2)	133, 141, 145, 148, 151, 154
		E-3-2	GHG Emissions (Scope3)	133
		E-3-3	Verification of GHG emissions	170~172
	Energy	E-4-1	Energy usage	52, 133, 141, 145, 148, 151, 154
		E-4-2	Percentage of renewable energy usage	133
	Water	E-5-1	Water consumption	133, 141, 145, 148, 151, 154
		E-5-2	Percentage of reused water	133, 141, 145
	Waste	E-6-1	Waste emissions	134, 141, 145, 148, 151, 154
		E-6-2	Percentage of waste recycling	134, 141, 145, 148, 151, 154
	Pollutant	E-7-1	Air pollutant emissions	134, 141, 145, 148, 151, 154
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	Violation of environmental laws/regulations	E-8-1	Violation of environmental laws/regulations	139
	Eco-labelling	E-9-1	Percentage of eco-label certified products and services	56~69
Social	Objectives	S-1-1	Establishment of objectives and disclosure	22
	Labor	S-2-1	New employment and employment retention	76, 136, 142, 146, 149, 152, 154
		S-2-2	Percentage of full-time employees	Business report, 321
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		S-2-4	Training fees	136, 143, 146, 149, 152, 155
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		S-2-6	Freedom of Association	79
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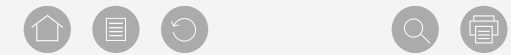
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	Shared growth	S-6-1	ESG management of partners	64~68
		S-6-2	ESG support for partners	66~68
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	Protection of information	S-8-1	Establishment of the information protection system	96
		S-8-2	Privacy infringement and remedies	96, 140
	Violations of social laws/regulations	S-9-1	Violations of social laws/regulations	139
Governance	Board of Directors	G-1-1	ESG agenda put to the BOD	99
		G-1-2	Percentage of non-executive directors	98
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		G-3-4	Dividend policy and implementation	corporate governance report 15~16
	Ethical management	G-4-1	Disclosure of violations of the Code of Ethics	140
	Audit body	G-5-1	Establishment of internal audit department	104, 115
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ESG Certification Status

Group ESG Certification

Company	Domestic/Overseas	Site						
			Environmental management	Health and Safety	Quality control	Energy management	Protection of information	Others
KT&G	Domestic	Headquarters						
		Sintanjin						
		Gwangju						
		Yeongju	ISO 14001	ISO 45001	ISO 9001	ISO 50001	ISO 27001 ISMS-P	
		Cheonan						
		Gimcheon						
		Sintanjin 2 plant	Report to the Ministry of Environment through NGMS					
KGC Korea Ginseng Corporation	Domestic	Russia						
		Indonesia						
		Turkey						
		Headquarters					ISO 27001 ISO 27701 ISMS-P	
		Buyeo	ISO 14001	ISO 45001	FSSC22000 Indonesia Halal KMF Halal (root ginseng) KMF Halal (red ginseng extract, red ginseng powder) Kosher			
		Wonju	ISO 14001	ISO 45001	FSSC22000 KMF Halal			
	Overseas	China						
COSMOCOS Co., Ltd	Domestic	Headquarters			CGMP ISO 22716 ISO 9001			EveVEGANQuasi-drug approval Veterinary quasi-drugs approval
		Incheon	ISO 14001	ISO 45001				



Buyeo plant OK kosher



ISO14001



ISO45001



ISO9001



Buyeo plant - ISO 14001



Wonju plant - ISO 14001



Wonju plant FSSC22000

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Verification Statement on 2021 Greenhouse Gas & Energy Inventory Report

Introduction

Korean Foundation for Quality (hereinafter ‘KFQ’) has been engaged by 「KT&G CORPORATION」 to independently verify its 2021 Greenhouse Gas Emission & Energy Consumption Report (hereinafter ‘GHG Inventory’).

Verification Scope & Standard

KFQ’s verification was conducted three business sites of manufacturing division and logistics division under operational control of 「KT&G CORPORATION」. ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 2021-278 of Ministry of Environment & IPCC Guidelines 2006)’ were mainly applied in verification process but also the Company Guidelines for GHG Inventory was considered.

Verification Procedure

The Verification has been planned and conducted by the “Greenhouse Gas and Energy Target Management Scheme”, and to reach reasonable level of assurance.

Limitations of verification

Accuracy and completeness of emission data reported in the ‘GHG Inventory’ are subject to inherent limitations due to their nature and the methodology used in determining, calculating and estimating such data.

Conclusion/Opinion

- 1) The Inventory Report has been stated in accordance with ‘Rule for emission reporting and certification of greenhouse gas emission trading Scheme’
- 2) The result of Material discrepancy satisfied the criteria for an organization that emits more than 500,000tCO2-eq shall not exceed 5% from total emission as per “Greenhouse Gas and Energy Target Management Scheme”
- 3) Thus, KFQ conclude that the Greenhouse Gas Emissions and Energy Consumption of the Company in 2021 is correctly calculated and stated in accordance with ‘Rules for verification of operating the greenhouse gas emission trading scheme’.

2021 Greenhouse Gas Emissions of 「KT&G CORPORATION」

Year	Greenhouse gas emissions (tCO ₂ -eq)		
	Direct Emissions (Scope1)	Indirect Emissions (Scope2)	Scope1 + Scope2
2021	33,744	75,418	109,162

July 11th, 2022

Ji Young Song

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

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GREENHOUSE GAS ASSURANCE STATEMENT

Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G CORPORATION (“KT&G”) to verify the KT&G’s Greenhouse Gas Inventory for the calendar year 2020~2021 (“the report”) based upon a limited level of assurance. KT&G is responsible for the preparation of the GHG emissions data on the basis set out within the ‘ISO 14064-1:2018 (Greenhouse gases - Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals)’. Our responsibility in performing this work is to the management of KT&G only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The emissions data covered by our examination are for the Other indirect emissions (Scope 3) from KT&G boundary of the report;

- Organizational boundary for reporting: 3 global network (production) of KT&G (Indonesia, Russia, Turkey)

Verification Approach

The verification has been conducted by DNV in June 2022 and performed in accordance with the verification principles and tasks outlined in the ‘ISO 14064-3:2019 (Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions)’. We planned and performed our work to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO2 equivalent. As part of the verification process;

- We have reviewed and verified the KT&G’s GHG inventory report (Excel based) for the calendar year 2020~2021
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions

Based on the above verification of core elements, it is the DNV’s opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the GHG Emissions from 3 global network(production) of KT&G for the year 2020~2021 below;

Greenhouse Gas Emissions of KT&G global network(production) sites for Yr 2020-2021

KT&G	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
2020	2,854	7,195	10,049
2021	2,878	8,475	11,353

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO2eq.
※ Total emissions = Direct emissions(Scope 1) + Energy indirect emissions(Scope 2)

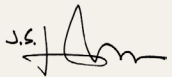
Greenhouse Gas Emissions of KT&G global network(production) sites for Yr 2020-2021

(Unit: ton CO2 equivalent)

KT&G	Country	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
2020	Indonesia	1,151	4,885	6,036
	Russia	1,173	1,509	2,682
	Turkey	530	801	1,331
Total		2,854	7,195	10,049
2021	Indonesia	1,041	6,117	7,158
	Russia	1,231	1,580	2,811
	Turkey	606	778	1,384
Total		2,878	8,475	11,353

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO2eq.
※ Total emissions = Direct emissions(Scope 1) + Energy indirect emissions(Scope 2)

July 2022
seoul, Korea

 Jang-Sub Lee

Country Manager
DNV Business Assurance Korea Ltd

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Greenhouse Gas Verification Statement

Introduction

DNV Business Assurance Korea Ltd. ('DNV') was commissioned by KT&G CORPORATION ('KT&G') to verify the KT&G's Greenhouse Gas Inventory for the calendar year 2020~2021 ("the report") based upon a limited level of assurance. KT&G is responsible for the preparation of the GHG emissions data on the basis set out within the WRI/WBCSD's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard' and the principles set out in 'ISO 14064-1:2018'. Our responsibility in performing this work is to the management of KT&G only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The emissions data covered by our examination are for the Other indirect emissions (Scope 3) from KT&G boundary of the report;

- Reporting boundary: KT&G's Other indirect emissions (Scope 3) which are not included in the Direct emissions (Scope 1) and Indirect emissions (Scope 2)
- Reporting categories:
 - Upstream scope: 7 Categories (Purchased goods and services, Capital goods, Fuel- and energy-related activities (not included in scope 1 or scope 2), Upstream transportation and distribution, Waste generated in operations, Business travel, Employee commuting)
 - Downstream scope: 4 Categories (Downstream transportation and distribution, Use / End-of-life treatment of sold products, Investments)

Verification Approach

The verification has been conducted by DNV from June to July 2022 and performed in accordance with the verification principles and tasks outlined in 'ISO 14064-3:2019'. We planned and performed our work to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

- We have reviewed and verified the Greenhouse Gas Inventory Tool (Excel based)
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions

Based on the above verification of core elements, it is the DNV's opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the Other indirect Emissions of KT&G for the year 2020~2021 below.

Other indirect emissions (Scope 3) of KT&G for Yr 2020~2021

(Unit: ton CO₂ equivalent)

Other Indirect Emissions (Scope 3)	Emissions from Upstream	Emissions from Downstream	Total emissions
2020	131,031	81,257	212,288
2021	129,976	74,986	204,962


※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the calculation tool with ± 1 tCO₂.

Other indirect emissions (Scope 3) of KT&G for Yr 2020~2021

(Unit: ton CO₂ equivalent)

Other Indirect Emissions\ (Scope 3)		2020	2021
Up stream	Purchased goods and services	111,305	114,663
	Capital goods	24	8
	Fuel- and energy-related activities(not included in scope1/2)	3,452	3,240
	Upstream transportation and distribution	5,630	5,054
	Waste generated in operations	8,096	4,099
	Business travel	314	703
	Employee commuting	2,211	2,210
Down stream	Downstream transportation and distribution	12,309	7,394
	Use of sold products	1,592	2,067
	End-of-life treatment of sold products	25,675	25,787
	Investments	41,681	39,738
Total		212,288	204,962

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the calculation tool with ± 1 tCO₂eq.



Lee, Jang Sup

Country Manager
DNV Business Assurance Korea Ltd

12 August 2022
Seoul, Korea

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Independent Assurance Statement

KT&G Corp. (“the Company” or “KT&G”) commissioned DNV Business Assurance Korea, Ltd. (“DNV”, “we” or “us”), part of DNV Group, to undertake independent assurance of ‘2021 KT&G Integrated Report (the “Report”)

Independent Assurance Statement

Our Opinion: : On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe KT&G’s adherence to the Assurance Principles described below. In terms of reliability of the performance data, nothing came to our attention to suggest that these data have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate. We believe that the Report adopts the ‘Core’ option of the GRI Standards

No.	Material Topic	Topic Standard	No.	Material Topic	Topic Standard
1	Response to Climate Change	302-4, 305-1, 305-2, 305-3	5	Disclosure on Corporate Governance	Non-GRI
2	Manage Sustainability of Partners	414-1	6	Corporate Ethics & Compliance	205-2
3	Manage Waste and Harmful Substances	306-4, 306-5	7	Enhance R&D and innovation capability	Non-GRI
4	Develop a Modified Risk product	416-1	8	Diversity & Inclusivity of Employees	405-2

Without affecting our assurance opinion, we also provide the following observations:

The Principle of Inclusivity

KT&G defined shareholders/investors, Government, Local Communities, Employees, Partners, Customers, Media, and NGOs as their major stakeholder groups. The communication activities with the selected stakeholders and their key issue of interest are described in the report, and stakeholder’s major interests are reflected in the materiality assessment process. DNV expects that KT&G could include various stakeholders by considering the scope of the subsidiaries in future reporting.

The Principle of Materiality

KT&G has conducted the materiality analysis to prepare the Report. Based on the derived issue pool, 25 reporting issues were sorted out through analysis of stakeholders’ interests and business impact, and the 8 key issues were selected as Material Topic for more detailed reporting. DNV has reviewed the materiality analysis process and noted relevant material topics (core issues) prioritized from the process are addressed in the report.

The Principle of Responsiveness

In 2022, KT&G has expanded and reformed the sustainability promotion system at the group level based on the vision of ‘2025 Empowering Sustainability for Growth’. Also, to proactively manage ESG risks of company’s overall value chain, KT&G has restructured the six strategic ESG Pillars and discovered ESG major agendas. KT&G has established the governance including the establishment of Sustainability Committee and dedicated organizations to manage sustainability risk and enhance the power of sustainability execution. DNV expects that KT&G could connect the company’s strategic ESG pillars and Material topics to properly report the impact of stakeholders and responsiveness.

The Principle of Impact

The impact on stakeholders related to Material Topics should be identified, monitored, and assessed. KT&G disclose the results of KT&G’s integrated value creation through their business activities as currency value. DNV recommends that the results of company’s performance and integrated value creation during the reporting period are in conjunction with their sustainability strategy and context in future reporting.

Reliability of Specific sustainability performance information

DNV is conducting a review of compliance with the principles of AA1000AP(2018) of the Report as described above (Type 1 verification). The assurance team has sampled data and tested accuracy and reliability of the sustainability performance data of the Company and interviewed the responsible for the subject data handling and reviewed the data gathering process with the supporting documents and records. Even though the intentional error or misstatement is not noted, DNV recommends that data owners demonstrate how to trace the origin of the data and interpret the processed data in a reliable manner for ensuring the reliability and transparency of the data. The Company reports the sustainability performance of the last three years and can be compared over time. Any errors or unclear expressions found during the verification process were corrected prior to the publication of the Report.

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Scope and Approach

We are performing our work using AA1000AS v3, Assurance Standard set for by AccountAbility, and DNV’s assurance methodology VeriSustain™ (Ver. 5.0) which is based on our professional experience, international assurance best practices including the International Standard on Assurance Engagements 3000 (“ISAE 3000”), and the Global Reporting Initiative Sustainability Reporting Standards (“GRI Standards”). DNV provides Type 1 and the moderate assurance. The engagement excludes the sustainability management, performance and reporting practices of KT&G’s subsidiaries, associated companies, suppliers, contractors and any third parties mentioned in the Report. We did not interview external stakeholders as part of this assurance engagement. Economic performance based on the financial data is cross-checked with internal documents, the audited consolidated financial statements and the announcement disclosed at the website of Korea Financial Supervisory Service (<http://dart.fss.or.kr>) as well as KT&G’s website (www.ktng.com). The review of financial data taken from these sources is not within the scope of our work. We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion. We are providing a ‘limited level’ of assurance. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the company were applied. The baseline data for environmental and social performance are not verified, while the aggregated data at the corporate level are used for the verification.

Basis of our opinion

The activity of assurance is being carried out from July to August 2022. We undertook the following activities as part of the assurance process:

- Challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls;
- Site visits to KT&G in Seoul, Korea to review process and system for preparing sustainability data and implementation of sustainability strategy
- Conducted interviews with representatives from the various departments;
- Conducted document reviews, data sampling and interrogation of supporting databases and associated reporting system as they relate to selected content and performance data;
- Reviewed the process and the result of materiality assessment.

Responsibilities of the Directors of KT&G and DNV

The Directors of KT&G have sole responsibility for the preparation of the Report. Our statement represents our independent opinion and is intended to inform all stakeholders. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV’s assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. DNV expressly disclaims any liability or coresponsibility for any decision a person or an entity may make based on this Independent Assurance Statement.

Competence and Independence


DNV’s established policies and procedures are designed to ensure that DNV, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. This engagement work was carried out by an independent team of sustainability assurance professionals.

DNV - Business Assurance

DNV Business Assurance Korea Ltd. is part of DNV Group, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance.

<https://www.dnv.co.kr/assurance>

August 11, 2022
Seoul, Korea



DNV Business Assurance Korea Ltd.
Jang Sup Lee, Country Representative



Association membership and sponsorship

(Unit: KRW million)

Membered Associations	Sponsorship	Comments
Korea IR Service	1,900	
Korea Listed Companies Association	14,130	
Korea Personnel Improvement Association	1,430	
Korea Intellectual Property Association	5,000	
Korea Mecenat Association	3,000	
STP(Sustainable Tobacco Program)		STP Steering Committee membership process in progress (expected to join within 2022)

*Under Article 31 of the Korean Political Funds Act (Every foreigner, corporation, or organization both at home and abroad shall be prohibited from contributing any political funds, and no one shall contribute any political funds from any corporation or any organization both at home and abroad.) and the KT&G Code of Conduct, political donations, sponsorships, political funds, campaign finance, and lobbying funds to political organizations are strictly prohibited.

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Interactive PDF User Guide

The KT&G 2021 integrated report was published as an interactive PDF with functions such as navigation to related pages and shortcuts to related web pages.

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Disclaimer

KT&G analyzed the results of creating value of social contribution activities in 2021 by applying the “True Value” methodology of KPMG, a global value measurement model, to carry out more systematic social contribution activities. The results are presented in this report as ‘Our Social Impact’ data, provided for reference to stakeholders and not the basis for investment decisions.

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Letter to Stakeholders



KT&G is creating social values in various fields based on the social contribution promotion system of 'Hope', 'Creativity', and 'Shared Growth'.

KT&G is committed to social contribution activities with the goal to deliver its philosophy as a 'Together Company'. We work with all stakeholders to build a sustainable society.

COVID-19 pandemic and challenges around climate crisis have made ESG management as prerequisite for sustainability management. This suggests that businesses should go beyond creating profits and be an integral part of creating value that can solve social problems. Aware of such, KT&G carries out various initiatives and activities to fulfill its social responsibilities.

We engages in carbon neutrality activities including forestation at both home and abroad for environmental protection, marine ecosystem protection for biodiversity and various CSR programs related to our value chain. All of these come along with activities for social contribution activities, shared growth with stakeholders in the supply chain, human rights and HR diversity in the Company.

We pledge our sustained efforts towards building stronger compliance and committing to ethics management policies aimed at mitigating business risks and advancing corporate governance.

In particular, KT&G has implemented well-designed social contribution activities via various platforms under the value system of 'Hope, Creativity and Shared Growth' until 2021. Our employees help the



marginalized class through KT&G Welfare Foundation and Scholarship Foundation so as to share 'Hope' with all members of the society. We operate five SangSang Madang and SangSang Univ., which is a community of university students, aimed at promoting 'Creative Imagination' for artists and local communities by supporting diverse cultural ecosystem. Lastly, we create a society of 'Shared Growth' with stakeholders from all sides through global / environmental CSR, SangSang Fund raised by executives and employees and SangSang Planet designed to help start-ups by young men and women.

In alignment with social and environmental issues, KT&G will adopt 'People, Community, Planet' model as the new value system for driving a more flexible and effective social contribution activities that benefits recipients the most. We ask for your support and attention to the efforts that KT&G will make to create genuine social values founded on the value system for mid-to-long-term social contribution activities.

Various social issues and COVID-19 pandemic pushed the world to the state of rapid changes. Yet, KT&G was able to preserve its value as the 'Together Company' for a long period of time driven by the support from all stakeholders. As much as our commitment to what we have done so far in building a better society as described in the Sustainability Report, KT&G will keep imagining and realizing those imaginations for the benefit of society at large.

KT&G's Director of Sustainability Management HQ &
Vice President / **Lee Sang Hak**

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KT&G AT A GLANCE

Corporate Profile

Under the corporate philosophy “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with customers and strives to realize a better life. Growing into a leading global company through changes and innovations, KT&G is creating social values and expanding sustainability activities, including corporate environmental responsibility. In addition, we are generating results in various business areas such as health functional food business, biopharmaceutical business, real estate business, including next-generation tobacco business, which will be the engine of future growth.

Company name	Establishment	CEO	Headquarters	Employees
KT&G Corporation	April 1, 1987	Baek, Bok-in	71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea	4,311 persons (as of Dec. 31, 2021, including contract-based employees)

Milestones

1883~1980	1987~2002	2003~Present			
Beginning of Korean Tobacco History	Development and Advancement through Innovation	Giant Global Company			
1883 • Founded the Sunhwaguk 1965~ • Completed major manufacturing plants in Korea 1975	1987 • Founded the Korea Monopoly Corporation 1989 • Founded the Korea Tobacco & Ginseng Corp. 1999 • Listed on the Korea Stock Exchange • Separation of Red Ginseng Business (establishment of the KGC) 2002 • Changed the corporation name from Korea Tobacco & Ginseng Corp. to KT&G Corp.	2003 • Established the KT&G Welfare Foundation 2005 • Won the Presidential Award for the Best Company in Vocational Competency Development 2006 • Selected as the best company in corporate governance by the Korea Corporate Governance Improvement Support Center (three consecutive years) 2007 • Won the excellent award at the Korea IR Competition hosted by the Korea Investor Relations Service (three consecutive years) 2008 • Established the KT&G Scholarship Foundation • Established a local subsidiary in Russia and Iran • Won the grand prize at the Korea IR Competition hosted by the Korea Investor Relations Service • Awarded the 400 million dollar export tower	2010 • Included in the DJSI World 2011 2011 • Acquired Trisakti (an Indonesian tobacco company) • Selected as the best company in corporate governance in 2011 2012 • Received A Level in the ESG evaluation by the KCSG (Korea Corporate Governance Service) 2013 • Developed low ignition point tobacco • Selected as a No. 1 company in the tobacco category of the National Customer Satisfaction Index (NCSI) 2014 • Won the Minister Prize of Trade, Industry and Energy at the 36th Energy Saving Competition 2015 • Won the Presidential Prize at the 2015 Mecenat Award • Won the grand prize in the Korean HRD training facility sector	2016 • Won the Grand Prize at the 2016 Korea HRD Award • Certified as a ‘leisure-friendly company’ by the Ministry of Culture, Sports and Tourism and selected as ‘Excellent Institution for Culture and Arts Sponsorship’ 2017 • Launched heat-not-burn products “lil” and “Fiit” • Selected as an excellent company in gender equality in employment by the Ministry of Employment and Labor • Awarded the 400 million dollar export tower • Won the Grand Prize at the 2016 Korea HRD Award (two consecutive years) 2018 • Launched “lil HYBRID” • Won A+ (the highest) Level in the ESG evaluation by the KCGS • Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family • Won the Presidential Prize for contributing to law and order by the Ministry of Justice	2019 • Won the Grand Prize for corporate governance by the KCGS • Won the Minister of National Defense Award at the ‘Korea Volunteer Grand Prize’ by the Korea United Nations Volunteer Corps • Minister of Employment and Labor’s commendation for ‘person of merit in fostering social enterprises’ 2020 • Formed a partnership with PMI (Philip Morris International) • Korea Intellectual Property Association ‘Intellectual Property Management Company of the Year’ Commendation from the Commissioner of the Korean Intellectual Property Office 2021 • Established a local subsidiary in Taiwan • Won the AA rating in MSCI (Morgan Stanley Capital International) • Won the Presidential Citation for Social Economy Promotion Merit 2022 • Awarded the Korea Brand Hall of Fame (for four consecutive years in the category of cigarette-type e-cigarette) • Patriots and Veterans Month External Merit Award Appreciation Plaque

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KT&G carries out well-designed social contribution activities to drive sustainable development of businesses and society and create shared value with a long-term perspective.



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2021 HIGHLIGHTS



1

Awarded Presidential Award for Merit in Social Economy



On Jul. 2nd KT&G won the Presidential Award at the '2021 Government Award for Merit in Social Economy' organized by the Ministry of Strategy & Finance. The Award was designed to honor individuals who identified successful business models in social economy and contributed to realizing social values. KT&G enjoyed the honor in the category of social values in recognition of sponsoring youth start-ups and supporting the marginalized.

KT&G opened SangSang Start-up Camp in 2017 to identify and foster social entrepreneurs who seek to solve social and environmental issues through business by creating jobs for vulnerable classes. In Jul. 2020, we opened 'KT&G SangSang Planet' in social venture valley in Seongsu-dong, Sungdong-gu to bring energy into youth start-up ecosystem. We also opened youth start-up center in SangSang Madang Busan to help grow young entrepreneurs in the region. Going forward, KT&G will continue to create social values by supporting social venture and solving unemployment issues.

2

Eco-friendly CSR to address environmental challenges



As a global company, KT&G is committed to various social contribution activities with the goal to create a better environment, which has become a global agenda. We launched a pilot program installing 147 cigarette butt collection boxes in six regions including in metropolitan cities to solve issues around illegal dumping of cigarette butts, which was widened to across the nation from 2022.

In South Gyeongsang province, we kicked off Sseudam Sseudam Campaign for raising consumer awareness and carried out activities to clean up the coastal areas and the underwater. In parallel, we are leading multiple activities to cut carbon emissions and ease climate crisis. Forestation on 2.5ha of land in Mongolia and Korea and supply of 1,300 eco-friendly water purifiers to let Tanzanians have access to clean drinking and consume less fossil fuels with roughly 10 million Won in budget are just a few examples.

Other than this, we are exerting various efforts to renew employees' awareness on environmental issues. 「2021 Feel Green Campaign」 engaging employees and activities to encourage use of non-disposables and upcycled products have elevated awareness on what it means to be green. Voluntary participation in 'plogging' by 1,900 KT&G employees not only changed awareness on environmental issues but also contributed to protecting the environment in the local community.

As always, KT&G will keep enhancing eco-friendly CSR in both depth and breadth.



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4

Grand Opening of SangSang Madang Busan for Culture and Art Ecosystem in Busan



In Dec., 'SangSang Madang Busan', a culture complex in Seomyeon, Busan, made its grand opening of the entire space. SangSang Madang Busan is KT&G's fifth culture complex we opened last September to bolster our support for culture and art ecosystem and create more opportunities to enjoy pop culture. At the grand opening, movie theaters, restaurants, roof top and other facilities located in 8th ~ 13th floors were newly introduced on top of performance hall, cafeteria, youth start-up support space that had already been unveiled. Cultural performance, exhibitions by artists and special lectures were provided for the citizens, self-employed and the local community as part of the rich program lineup. SangSang Madang Busan will keep up this momentum and come up with new culture and art programs to sponsor artists from all fields and serve as the hub of communication with young men and women in Busan.



3

Sharing of Contribution by SangSang Planet in Solving Youth Unemployment on 1st Anniversary

Sharing of Contribution by SangSang Planet in Solving Youth Unemployment on 1st Anniversary
KT&G SangSang Planet, which opened up in social venture valley in Seongsu-dong, Seoul, with the goal to sponsor young entrepreneurs and help create jobs for the youth marked its first anniversary in Jul. 2021. In celebration, SangSang Planet arranged colorful programs to look back on its achievements in the past one year and share success stories of social innovation entrepreneurs. 'SangSang Planet', which is exclusively for youth start-ups to grow and communicate with each other, eases financial burden on rookie entrepreneurs by setting rent at half the market average price. It also supports entrepreneurs in other forms such as offering networking program for businesses, which is needed for growth, and a wide variety of training programs on marketing, legal, etc. On this foundation, its occupancy ratio exceeded 90% in less than one year and 19 tenants expanded their hiring to drive business expansion, an indication of how 'SangSang Planet' has landed itself as a successful youth start-up platform and a model driving virtuous cycle in the start-up ecosystem.





5 Commitment to COVID-19 Contingency Plan as Part of Corporate Responsibility



Commitment to COVID-19 Contingency Plan as Part of Corporate Responsibility

KT&G's COVID-19 contingency plan, which we established after the onset of the pandemic, continued to fight against the persisting virus and solve social issues arising from it. Our activities are based on support plan in three stages – physical assistance, customized assistance and psychological assistance.

In physical assistance, we distributed cool kit to medical practitioners and offered preemptive support to those at most direct risk. To this end, we cut rent in owned building spaces.

In customized assistance, we helped find jobs for artists and provided online training support to ensure that vulnerable classes with no exception are provided with the right assistance to respond to COVID-19. In addition to this, we donated medical oxygen concentrators worth KRW200 million and 15,000 face masks to Indonesia, which is our major foreign business partner, to fulfill our responsibility as a global corporate citizen. KT&G employees also jumped on the bandwagon as they joined 'Campaign to Help Flowering Farmhouse' to support flowering farmhouses hit hard by the spread of COVID-19 and 'Family(食購) Campaign' designed to buy food ingredients to help shops in conventional street markets. This is part of the psychological assistance to boost morale of the self-employed and lift up the spirits.

KT&G's efforts to help communities overcome the pandemic and get back to their normal lives will continue.

6

'10100' on the Occasion of 10th Anniversary of KT&G's Signature Employee Fundraising 'SangSang Fund'



'10100' on the Occasion of 10th Anniversary of KT&G's Signature Employee Fundraising 'SangSang Fund' KT&G SangSang Fund is a signature fund voluntarily raised by executives and employees since Mar. 2011. To commemorate its 10th anniversary, KT&G held an exhibition to look back on its path over the decade. The Company also provided opportunities for nationwide performance tour and exhibitions to artists through a public contest with the goal to support young artists adversely affected by COVID-19. Performances and exhibitions were a great source of comfort to the hearts and minds of executives, employees and audience fatigued by the pandemic. Donation from the Company, executives and employees is the source of SangSang Fund based on 1:1 matching grant, which is executed transparently upon deliberation and decision-making by SangSang Fund Operational Committee composed of 11 employee delegates. 'Donation Market' whereby recipients are selected based on stories clicked by executives and employees, 'Donation Petition' of stories searched by executives and employees, 'Autonomous Share for Sustainability Management HQ' to support local communities in remote areas and 'Share for SangSang Fund Operational Committee' are where funds are channeled to ensure that executives and employees find the Fund meaningful. Thanks to engagement by executives and employees, a total of KRW4 billion is raised a year with cumulative raising of KRW36 billion. We will continuously strive to dedicate ourselves in genuine social contribution programs and leave a positive footprint in the local communities.



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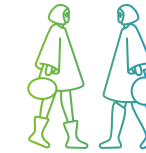
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7

'SangSang Univ Local Project' in 13 Regions



SangSang Univ launched 'local project' with university students in 13 regions nationwide as part of the efforts to revitalize culture and art with local communities. In Seoul, we opened fashion runway with master sewers in Changsin-dong, which is the center of Korea's sewing and dressmaking industry, and university students aspiring to become fashion designers and models. In Busan, we hosted 'Shoes Festival' to take advantage of Busan's past glory as the shoemaking hub. In South Cheolla province, KT&G held 'Uni-Broadway' to open venue for university students to perform in musicals based on original scenarios and collaboration with local theater companies. In North Cheolla province, we arranged 'SangSang Short Movie Production Project' where local university students enjoyed opportunities for moviemaking from filming to editing and movie premier. These are just a few number of 13 local projects that we launched across the nation.

SangSang Univ will keep launching local projects nationwide to expose university students to various experiences. At the same time, we believe these initiatives will go a long way in breathing life into culture and art in local communities.



8

Volunteer Activities for Leaf Tobacco Harvesting for 14 Years



Since 2007, KT&G has voluntarily reached out for help to leaf tobacco farmhouses aimed at sharing production knowhow of high-quality leaf tobacco and make up for labor shortage. In Aug. 2021, executives and employees from Raw Material HQ and Gimcheon Plant helped farmhouses in Dunpo-myeon, Asan harvest 5,700kg of leaf tobacco on 16,000m² of farmland.

In December, we signed an agreement with Large Companies/SME/Agricultural and Fishery Cooperation Foundation' and contributed KRW20 billion in Agricultural and Fishery Win-Win Fund to sustain our win-win activities for local farmhouses and enjoy shared growth.

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RESPONSE ACTIVITIES TO COVID-19

COVID-19 Contingency Plans



STEP 1. Physical Assistance

Emergency supplies and support through fundraising, goods and rental discount

Emergency supplies for medical staff

In July 2021, KT&G sponsored KRW300 million in SangSang Fund to medical practitioners working hard to ease spread of COVID-19 in the hot summer via National Disaster Relief Association. The fund was used to distribute cooling kit to medical practitioners who had to wear protective clothing against the virus in the midst of the heat wave.

Cut rental burden to tenants in KT&G buildings

KT&G is part of the 'Good Leaseholder Campaign' to help minimize economic shock COVID-19 sustained on the self-employed. By giving a discount in the fixed rental to tenants at KT&G's 12 building spaces who are either self-employed or run a small business, we contributed roughly KRW310 million.



Social Impact from Response Activities to COVID-19

KRW **16.8** billion



To walk the talk of being a 'Together Company', which is the Company's business philosophy, we have been putting in place a contingency plan to solve major social issues. To solve social issues in a more effective manner in the midst of COVID-19 variant, which made matters more challenging, KT&G established COVID-19 contingency represented by phased support system in 2019. Our efforts to find solutions to various social issues including COVID-19 will continue going forward.

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STEP 2. Customized Support

Intensive support program customized to classes vulnerable to disaster

Job Creation Initiatives for Artists

On the occasion of the 10th anniversary of SangSang Fund, KT&G sponsored around KRW300 million to help young artists marred by COVID-19 to demonstrate their talents. Specifically, we gave 10 teams each in exhibition, performance and busking categories an opportunity to exhibit six times and perform nine times at SangSang Madang and SangSang Planet. Culture and art programs offered great opportunities to not only encourage artists but also everyone in local communities depressed by COVID-19.

Emergency Support to Remove COVID-19 Blind Spots

KT&G collaborated with Ministry of Justice and other related organizations to support quarantine supplies and ensure nobody is left behind in the relief efforts. We supplied 150,000 face masks worth KRW63 million to Korea Correctional Service and self-test kits worth KRW60 million to juvenile protection institutions under the Ministry of Justice.

Support for the Vulnerable Groups_Welfare Foundation

KT&G Welfare Foundation engaged in sharing as in other years in 2021 with focus on customizing support to classes weakened and affected by the spread of COVID-19. We donated agricultural goods and red ginseng worth roughly KRW2.15 billion to build health immunity of the vulnerable group, which included both low income class and local farmhouses.

Scholarship and Online Learning Tools_Scholarship Foundation

In 2021, KT&G Scholarship Foundation provided a total of KRW400 million or KRW1 million each to 400 children of the self-employed and the jobless whose livelihood deteriorated as a result of COVID-19. As COVID-19 made online class a norm, the Foundation also delivered tablet PCs to 400 students from grade 1 to grade 6 registered in local children's centers and social welfare institutes nationwide to ensure there is no blind spot when it comes to education and launched digital literacy education, which 20 university students joined voluntarily as mentors.

Overseas Relief Activities

COVID-19 variant was not just limited to Korea but was a global health issue. To fulfill its social responsibilities as a global company and join in the efforts to overcome health crisis, KT&G sent medical oxygen concentrators and 15,000 face masks worth KRW200 million to Indonesia and Russia, which are our major overseas partner countries. Supplies have been delivered to local hospitals to treat COVID-19 patients in serious conditions. Other than quarantine support, we also engaged in the initiatives to aid livelihood, education and other areas that have been hurt by the pandemic. In Mar. 2021, we opened Vocational Training Center focusing on sewing and dressmaking in UKCW University located in Malang, Indonesia to support the vulnerable groups to stand on their own feet in Indonesia, which is one of the Company's key partner countries. Each training session is joined by 30 trainees and three sessions have been completed as of 2021. The Center teaches dressmaking skills and others to support financial independence of trainees and they have indeed made significant progress by either finding a job or manufacturing clothes on their own.



STEP 3. Psychological Assistance

Support to Revitalize the Spirits Depressed or Disengaged by COVID-19

Relay Campaign to Help Flowering Farmhouses

To support flowering farmhouses affected by the spread of COVID-19 KT&G launched 「Relay Campaign to Help Flowering Farmhouses」, which continues to this date. In Feb. 2021, we started a flower delivery program to children of employees newly entering elementary, middle and high schools and also to employees soon to give birth throughout the year. This not only boosted sales of flowering farmhouses but also represented a good employee welfare. In May every year, which is the Family Month, we send flowers and letters to employees' families on the same token to support flowering farmhouses. In 2021, activities to help those farmhouses amounted to roughly KRW40 million thereby cheering both families of executives and employees and flowering farmhouses challenged by COVID-19.

Family(食購) Campaign Together with Executives and Employees

KT&G started 「Family(食購) Campaign」 in 2020 to support local farmhouses affected by COVID-19 and restore the depressed local economy. 'Family' in the Campaign represents 'eating' and 'buying' together as family. As part of the Campaign, KT&G bought lunchboxes from the self-employed from conventional street markets and served them as lunch meal to executives and employees. 3,000 executives and employees joined the Campaign until 2021 on cumulative basis. In addition to this, we promote and sell local specialties purchased from 46 farmhouses that we partnered with in 11 regions nationwide to KT&G executives and employees. By doing so, we aim to be a comfort and relief to the self-employed who are going through difficult times due to the pandemic.



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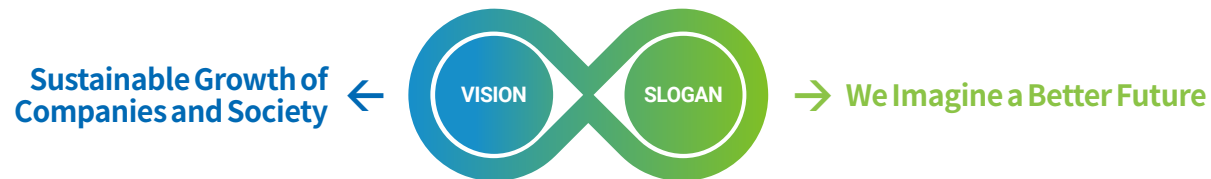
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SOCIAL CONTRIBUTION FRAMEWORK

KT&G executes CSR strategies, which we have established to put our business philosophy as a 'Together Company' into action. We earmark 2% of annual sales revenue into social contribution activities, which is one of the highest ratio in Korea. We plan and run a good variety of social contribution programs based on commitment to a platform embedded with our core competencies under the value of Hope · Creativity · Shared Growth. In 2022, we plan to introduce a new CSR value system aligned with the changing environment by shifting from the existing platform-based value system around Hope · Creativity · Shared Growth to beneficiary-based value system around PEOPLE-COMMUNITY-PLANET. Under the new value system, we aspire to broaden our support base all the way to the global level and set our activity scope targeting different beneficiary groups with greater flexibility and freedom. By taking initiatives in addressing social issues and making sure that fair opportunities are efficiently distributed to all members of society particularly those in greater need, KT&G promises to create a better tomorrow for all.



Values in Pursuit	Platform	Key Initiatives	Main Beneficiaries
Hope  We strive to distribute greater opportunities and resources to members of society in greater need, thereby create a future of harmony for everyone.	Welfare Foundation Scholarship Foundation	• Support to low-income class • Overseas relief • Support to welfare centers • Volunteering activities	Vulnerable social group Vulnerable social group
Shared Growth  We operate business responsibly for a better tomorrow where we work and grow together with the communities.	SangSang Planet SangSang Fund Social Responsibility	• SangSang Planet • SangSang Summit • Social venture growth support program • Program to enhance exchanges of social venture • Donation petition • Employee volunteering group • Donation market • Other public services	Local community, stakeholders, youth/ university students Vulnerable social group, Local community, stakeholders
Creativity  We help new artists and university students develop and flourish their capabilities, thereby contribute to building a more creative and diverse cultural ecosystem.	SangSang Madang Sang Sang Univ.	• Global CSR • Support to leaf tobacco farms • Smoking environment improvement • Environment CSR • Support to leaf tobacco farms • Support to performances/ exhibitions • Culture and art program • University students' executives • Employment support program	Local community, stakeholders Local community, New artists Youth/university students

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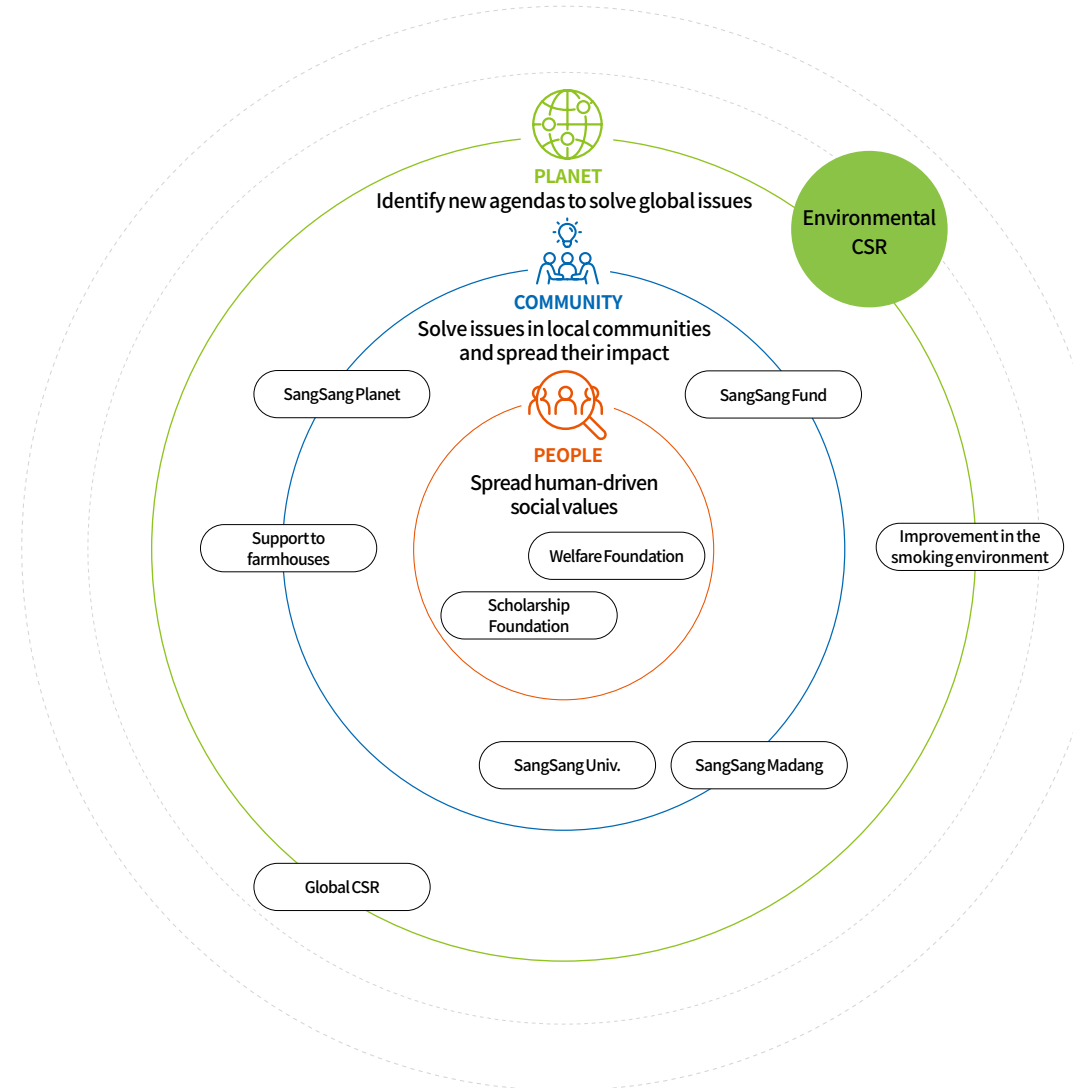
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2022 New Social Contribution Framework : People-Community-Planet

KT&G has been running a wide variety of CSR(Corporate Social Responsibility) programs under the core values of Hope-Creativity-Shared Growth. Led by the dedicated organization, KT&G, which is acutely aware of the Company's sustainability management, upgraded the framework with the aspirations to further facilitate the programs under the new beneficiary-based value system represented by P-C-P(People-Community-Planet). 'PEOPLE', aimed at transforming an individual's growth into a driver to innovate and change society and businesses, 'COMMUNITY' embracing the efforts to solve issues in local communities and driving shared growth and 'PLANET' aimed at exploring innovative solutions with keen interest in global issues are the governing values for KT&G's CSR. The 2021 S-Report presented names of each CSR program under the new value system to identify classification of each program and icon of the new P-C-P model. Based on the new CSR platform, KT&G will continue its commitment to various social contribution activities for a brighter future.



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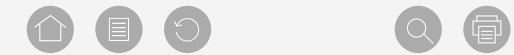
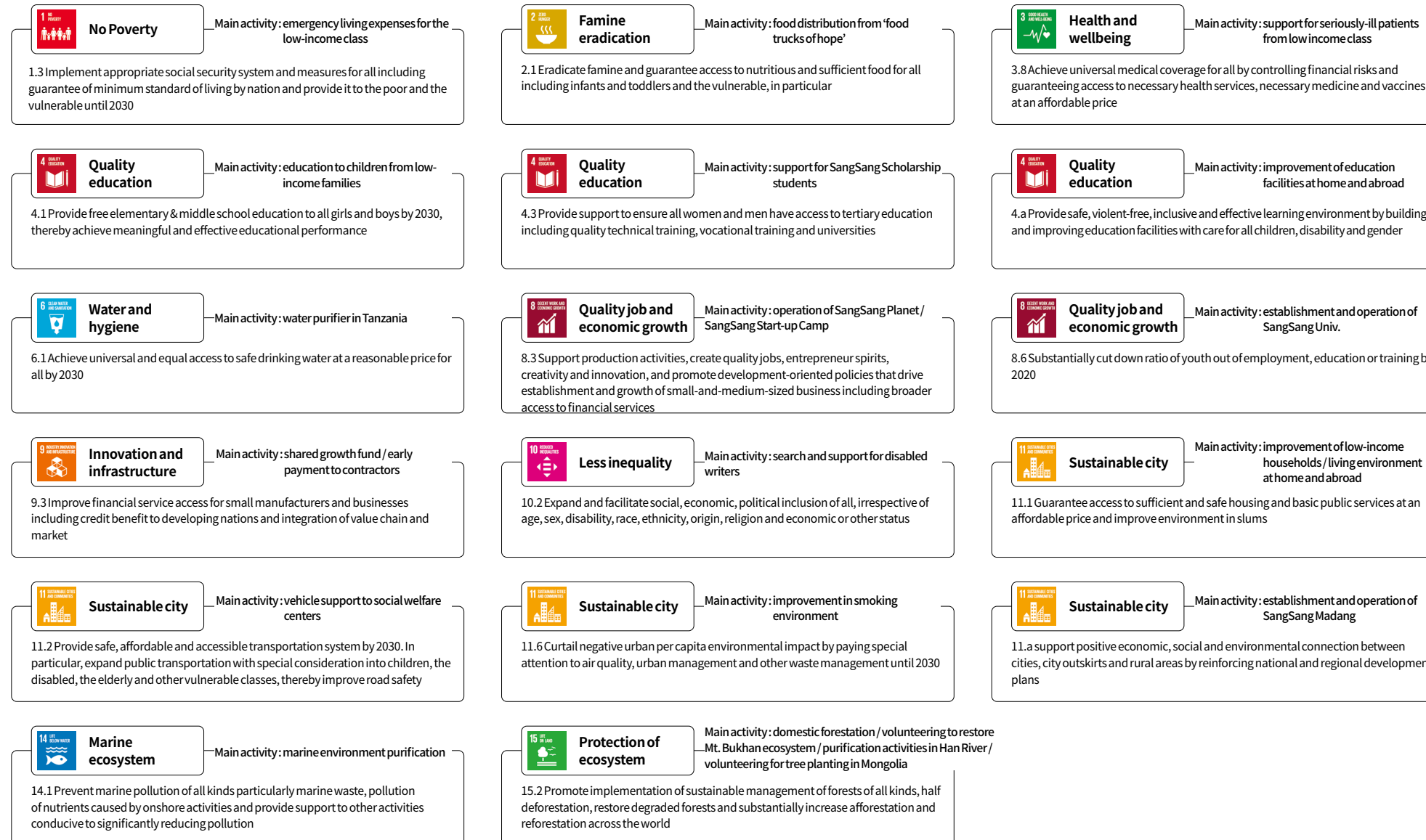
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UN SDGs IMPLEMENTATION

As a global corporate citizen, KT&G seeks to engage in various activities to contribute to achieving SDGs(Sustainable Development Goals) resolved by the United Nations. Armed with our own resources and capabilities, we commit ourselves to genuine activities conducive to achieving SDGs, thereby solve global issues around environmental pollution, human rights and inequality, thereby drive sustainable development of the world.



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Seeds Sowed with 'Hope'

KT&G operates social welfare and scholarship programs to help deliver 'hope' to the socially disadvantaged. KT&G Welfare Foundation established in 2003 supports the socially disadvantaged class to find economic and psychological security. It also donates compact vehicles and engages in other support programs for social welfare centers to ensure social welfare programs can last. KT&G Scholarship Foundation, which was founded in 2008, contributes to alleviating inequalities in education opportunities by applying Total-Care System across courses from middle schools to universities. Scholarship programs are targeted with greater diversity from culture and art to teenagers in crisis to ensure benefits of such programs can reach out to as many as possible.

OUR SOCIAL IMPACT

Welfare Foundation KRW 34.0 billion

Scholarship Foundation KRW 5.3 billion

Total KRW 39.3 billion

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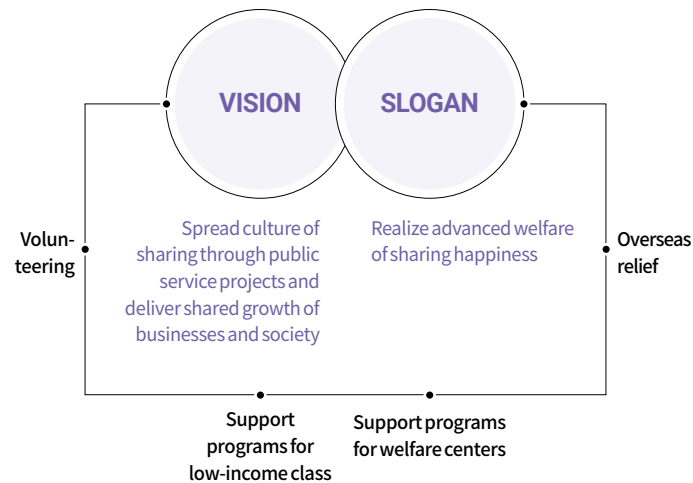
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01 Welfare Foundation

KT&G Welfare Foundation engages in highly effective activities in all aspects to realize 'advanced welfare of sharing happiness' by spreading 'culture of sharing', which is the Foundation's goal. The Foundation provides direct economic support to the low-income class including children, the elderly and the disabled who are in need of care from the community and contributes to expanding infrastructure of sharing by sponsoring compact vehicles to welfare centers, etc. Furthermore, the Foundation runs emotional support programs like music and art education to improve quality of life and runs overseas relief programs to deliver its responsibility as a global corporate citizen, which are just a few of many other welfare programs the Foundation is leading to ensure everyone's happiness.

Overview of Welfare Foundation



Support for children from low-income families

KT&G Welfare Foundation supports online music and art courses in 452 children centers nationwide for children from low-income households with the goal to provide both emotional security and stronger emotional intelligence to the children. For children's health and better nutritional balance, the Foundation also supplies food including fruits every month and books to improve children's learning capabilities. In 2021, cultural experience programs affiliated with SangSang Madang prior to COVID-19 have switched to online programs to prevent the pandemic and they are continuing to this day.

Support for the Vulnerable social group

KT&G Foundation provided eco-friendly agricultural food package including rice and grains to 25,000 low-income households whose livelihood has been affected by COVID-19. Along with this economic support, the Foundation also organized cultural experience programs for single-parent households for exposure to various cultural experiences and helped the disabled writers with their art works as well as exhibitions. The Foundation implements various support programs as such to help the Vulnerable social group live their lives without losing hope.

Vehicle support for social welfare centers

KT&G Foundation started a program to provide vehicles to social welfare centers in 2004 to ensure sustainable implementation and spread of welfare programs. By doing so, this program, which is the Foundation's signature program, contributed to building local welfare infrastructure. In 2021, the Foundation provided 150 vehicles from the annual average of 100 in previous years, considering domestic social welfare conditions challenged by COVID-19 and helped secure the vulnerable class' right to mobility. As of 2021, a total of 1,950 vehicles have been provided to welfare centers on a cumulative basis serving as transportation means of all social welfare centers nationwide and contributing to welfare activities in local communities.

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Promotion of University Students' Volunteering Activities

KT&G Foundation has signed agreements with volunteering clubs in 50 universities with the goal to engage more university students to volunteering activities. In 2021, the Foundation volunteered for wall painting in Yangwon Elementary School and Shinmyung Elementary School in Seoul with 80 volunteering university students. This not only offered psychological security to elementary school students and local residents in the communities but also gave a great opportunity for students majoring in art to share their talents.

In addition to this, 20 university student volunteers plant indigenous species and remove foreign noxious plants in Mt. Bukhan, which is a national park, as part of the efforts towards environmental protection.



Global Dream Kit Supply Initiative

In the face of prolonging COVID-19, KT&G Welfare Foundation provides dream kit to children in foreign countries in need for education and quarantine.

The Foundation shared education kits related to art, science and Korean culture to 1,200 students in three elementary schools in Siem Reap, Cambodia, thereby offering various education opportunities. This was accompanied by distributing face masks and hand sanitizers to help fight COVID-19.

Major Achievements in 2021

Support for children from low-income households



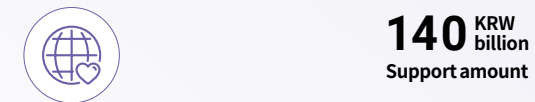
Support to low-income households (quarantine, heating expenses, etc.)



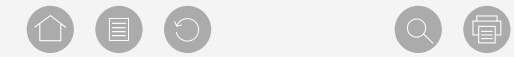
Vehicle support to social welfare centers(cumulative)



Global dream kit supply project



Domestic university students' volunteering activities



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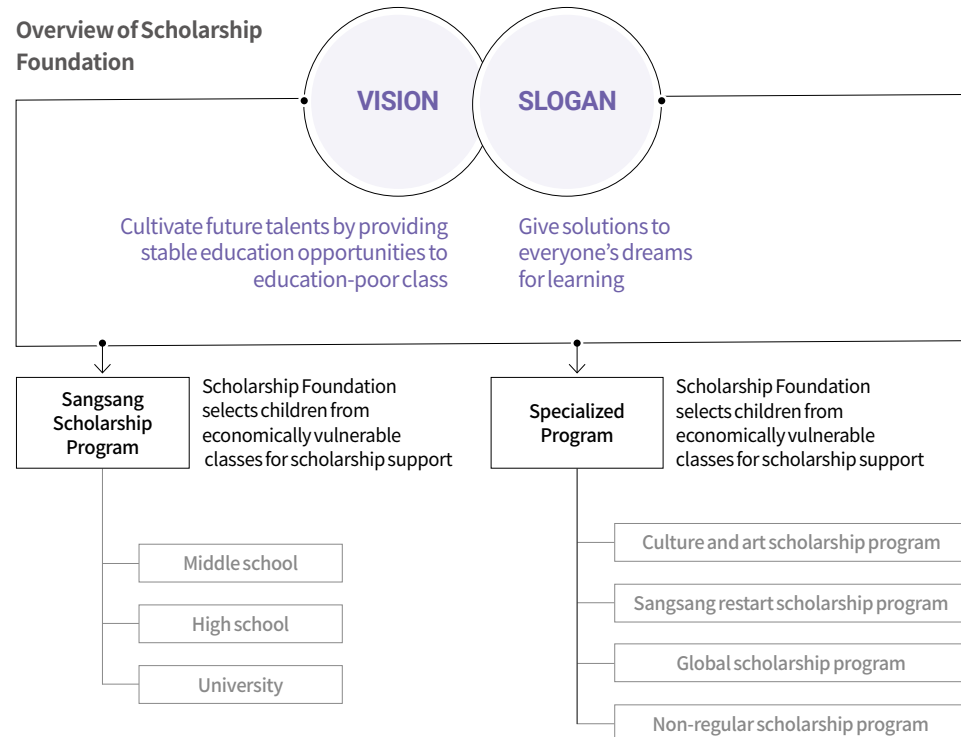
02 Scholarship Foundation



KT&G Scholarship Foundation provides scholarship programs in various areas to make sure everyone's dreams for learning can come true. Sangsang Scholarship, which is the basic scholarship, shares learning opportunities by offering scholarship to middle, high school and university students from low-income households. At the same time, efforts are made to make sure students aspiring to pursue their studies in art and culture, Korean students studying overseas and teenagers released from juvenile detention centers are given opportunities for learning from the Foundation's specialized scholarship program.

All these represent KT&G Scholarship's desire to help talents dream their dream regardless of the environment they are in and stay hopeful.

Overview of Scholarship Foundation

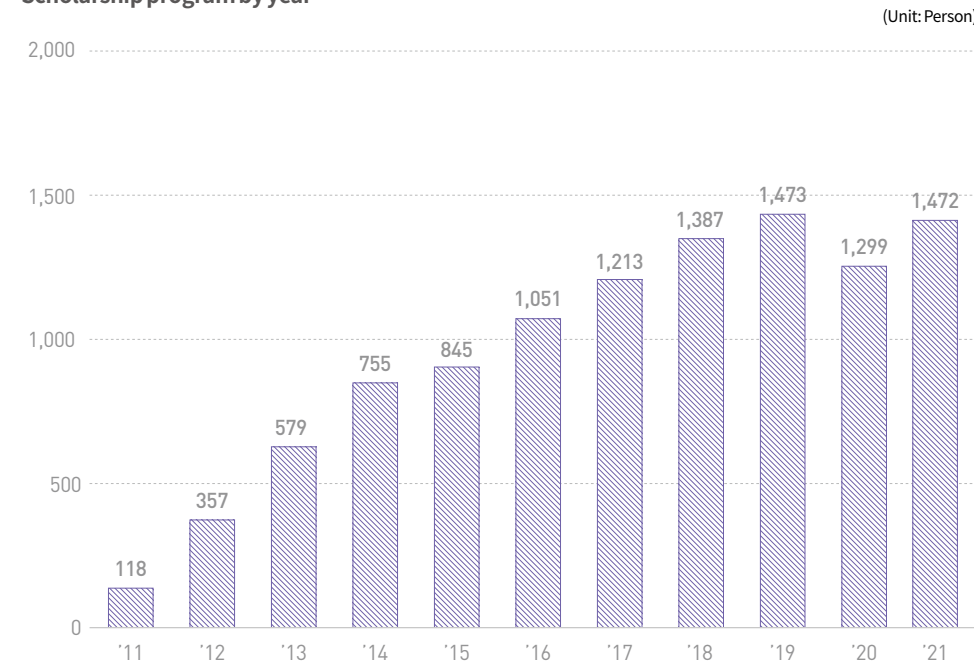


Sangsang Scholarship Project

KT&G Scholarship Foundation selects and supports scholarship students every year from the underprivileged class who are not financially well-off but demonstrate outstanding academic competency. The pool of students enjoy their scholarship status unless disqualified from middle and high school to university based on total-care method. Every year, the Foundation supports KRW1 million, KRW2 million and KRW3 million to each middle, high school and university student.



Number of recipients of Sangsang Scholarship program by year



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Specialized Scholarship Program

On demand Scholarship Program

In addition to the regular Sangsang Scholarship program, KT&G Scholarship Foundation has On demand scholarship programs to aid the education poor caused by social issues. In 2021, the Foundation offered KRW200 million or KRW1 million each to 200 university students from the self-employed parents whose lives were affected by the spread of COVID-19 in 2021. The Foundation raised another KRW200 million to support academic pursuit of children from families who lost their lives due to COVID-19. A total of 100 university students were selected for this cause and were offered KRW2 million each. All these programs represent the Foundation's endeavor to strengthen customized support to the self-employed families and those who lost their jobs as a result of the pandemic, thus making sure there is no blind spot in education



Restart Scholarship Program

In 2016, KT&G Scholarship Foundation launched 'Restart Scholarship' project aimed at supporting social independence of youth living in childcare centers. In collaboration with Korea Juvenile Protection Association (KJPA), a public institution under the Ministry of Justice, the Foundation selects recipients eligible for educational expense support to help them stand on their feet with strength. In 2021, we aided university admissions, general equivalency diploma and technical training to 78 juveniles from childcare centers.



Culture & Art Scholarship Program

KT&G Scholarship Foundation's culture & art scholarship is aimed at supporting talents and culture and art. Dance talents who have been identified and selected by the Foundation are supported to participate in competitions, lesson fee to help further sharpen their capabilities. In 2021, the Foundation supported ballet master class lectured by professional ballet dancers and choreographers and showcases for the selected scholarship students as an opportunity to help their growth into competent culture talents.



Online Scholarship Program

Aimed at creating a stable online education environment and close the gap in digital education, KT&G Scholarship Foundation launched 2021 scholarship program to support online education, which distributed IT learning tools and provided digital literacy education to students from elementary schools. The Foundation distributed tablet PCs to 400 elementary school students registered in local child centers and social welfare centers across the nation. Also, digital literacy education was provided by 20 university student volunteers who joined as mentors for greater effectiveness.



Global Scholarship Program

To deliver our responsibilities as a global corporate citizen, KT&G put forth global scholarship since 2018. In 2021, KT&G Scholarship Foundation offered scholarship to 203 high-performing students in three universities in Indonesia, Turkey and Russia with recommendation from local institutions. The Foundation also provided around KRW100 million in scholarship to 58 graduate students from 19 countries who demonstrated competitive research results at KIST.



Major Achievements in 2021

Non-regular Scholarship



300 recipients **400** KRW billion
University students from the self-employed and jobless families

Sangsang Scholarship Program



1,472 students (460 middle school, 681 high school, 331 university students) **3.08** KRW billion
(Middle school KRW460 million, high school KRW1.72 billion, university KRW900 million)
Amount of assistance

Restart Scholarship Program



78 students Number of recipients **0.5** KRW billion Amount of assistance

Culture & Art Scholarship Program



40 students Number of recipients **240** KRW billion Amount of assistance

Online Education Support Scholarship



420 students Number of recipients **250** KRW billion Amount of assistance

Global Scholarship Program



261 students Number of recipients **2.9** KRW billion Amount of assistance

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Fruit Reaped by ‘Shared Growth’

To deliver the value of ‘shared growth’ as a company that stands side by side with the communities at large, KT&G is committed to activities that drives shared growth of businesses and local communities and subsequently create social values. ‘Sangsang Planet’, which the Company provides as a platform to support youth start-up, lays the foundation for the young men and women to dream a brighter future. ‘Sangsang Fund’ raised by KT&G executives and employees channels funding to those in need.

The Company also engages in global CSR activities that are related to our business in order to fulfill our role as a global corporate citizen. In parallel with these, we also have environmental CSRs such as improving smoking environment, purifying marine environment and promoting forestation as part of the move to preserve the global environment.

OUR SOCIAL IMPACT

Sangsang Planet

2 KRW
billion

Donation projects including global CSR, etc.

3.7 KRW
billion

Sangsang Fund

4.1 KRW
billion

Support for shared growth

83.1 KRW
billion

Social responsibilities

9.6 KRW
billion

Total

102.5 KRW
billion

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Sangsang Planet



KT&G runs various support programs aimed at growth of future generations. 'Sangsang Planet', which is an incubating platform, is one of those programs aimed at growing and reinforcing capabilities of social ventures in their early stages for young rookie entrepreneurs. Through 'Sangsang Start-up Camp', which identifies and cultivates new social ventures, 'Sangsang Summit', an expert forum to vitalize ecosystem around social innovation and other programs dedicated to supporting ventures by stage, we make sure our assistance goes into all directions. In doing so, we encourage the challenging and hopeful spirits of all young entrepreneurs.

Origin of KT&G Sangsang Planet

KT&G Sangsang Planet dates back to 2004 when the Company sponsored 'Asian University Students' Start-up Exchange Contest', which was the largest size in Asia and the only contest of such nature in Korea. In 2017, we opened 'KT&G Sangsang Start-up Camp' to support youth start-ups, job creation and identify and cultivate start-ups driving social innovation. Founded on years of understanding and experience into youth start-up, we established 'KT&G Sangsang Planet' for rookie entrepreneurs keen on social innovation. For them, 'KT&G Sang Planet' serves as the place to learn, meet with peers, build social impact and to start up a business.



KT&G Youth Start-up Support History



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Sangsang Planet

KT&G Sangsang Planet is a shared office dedicated to fostering growth and exchanges of rookie social ventures. The Planet sits on a total floor area of 4,000㎡ from B1 ~ F8. The office has a total of 246 seats and various shared facilities including meeting rooms, lounge and sleeping rooms are available in each floor for entrepreneurs' convenience. KT&G runs regular growth support programs such as working-level coaching and demo day as well as exchange support programs such as busking and small gathering to help entrepreneurs settle their business down early on.

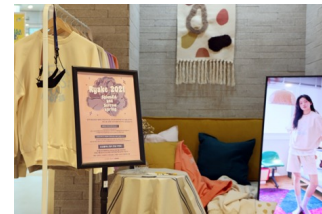
Programs for Sangsang Planet Members



Planet Campus



Planet Day



Planet Pop-up



Play Planet



Wellness Planet



Connect Planet



Growth Support(Scale-up) Program

Planet Campus

Planet Campus is a regular education/coaching program aimed at reinforcing working-level capabilities of Planet members. Rookie entrepreneurs are given a chance to learn finance/marketing/HR/labor/legal and others that are needed for running a business. Monthly mentor-mentee matching and 1:1 coaching are also available for them.

Planet Day

Planet Day is held on Jul. 15th, which is the opening day of KT&G Sangsang Planet. Tenants present their growth stories to VCs(Venture Capital) and get feedback as well as coaching. This comes in parallel with various other events including reception and photo zone, etc.

Planet Pop-up

Members of the Planet can take advantage of the Planet Pop-up zone on the first floor to promote their products and services. KT&G supports fixed budget to applying teams who can promote themselves to customers visiting Sangsang Planet and turn it into an opportunity for growth.



Play & Network Program

Play Planet

Play Planet is a busking program to comfort the hearts and minds of exhausted Planet members and professionals in the neighborhood. Performances by artists of different genres on the first floor of Sang Sang Planet offer the local community a great opportunity to enjoy culture and art. Flea market for products and services laid out by Planet members opens in parallel.

Wellness Planet

Wellness Planet is a program aimed at keeping physical and mental health of Planet members. Body stretching, meditation and yoga are some of the programs available for members to stay in good health.

Connect Planet

Connect Planet helps Planet members share their hobbies and interests from movie watching to running and book reading, etc., on a regular basis.

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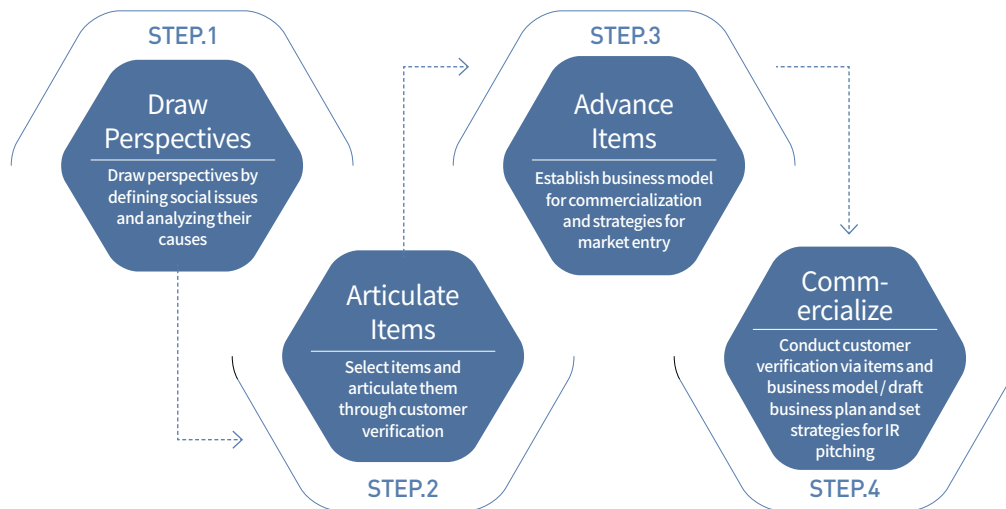
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Youth Start-up Program



Methodology of Social Innovation Start-up

Achievements of Sangsang Start-up Camp Operation
(six camp teams on cumulative basis)

112	215	21.1 KRW billion
Number of teams	Number of participants	Cumulative sales revenue
831	36 teams	38 teams
Employment	Incorporation	Entry into social entrepreneur cultivation project



KT&G Sangsang Start-up Camp

KT&G Sangsang Start-up Camp is a program dedicated to cheering the dreams of young men and women striving to solve social issues through business. A total of six camp teams have completed their activities in the Camp. KT&G assists sustainable growth of camp participants by holding working-level coaching program for full-time start-ups and demo day, etc.

Teams who have graduated from the Camp are building their presence in various areas and a total of 36 teams so far have incorporated themselves into social venture start-up. Furthermore, 38 teams were selected in 'social entrepreneur development project, which is supported by the government, and they are standing at the frontline of vitalizing social economy.



Achievements of Sangsang Summit Operation in 2021

around **250**
Number of online participants



Sangsang Summit

KT&G hosts 'Sangsang Summit', which is an expert forum on social innovation, every year with the goal to draw public's attention and engagement to social venture ecosystem. The 4th Sangsang Summit in 2021, which was held under the theme of 'The Path Towards Innovation Built by Future Generations', invited experts to make presentations on value consumption trend of future generations, ESG-

oriented future investment strategies and companionship between businesses and future generations. Young entrepreneurs also had a chance to share their stories on founding ESG start-up at the Summit. To prevent the spread of COVID-19, Sangsang Summit was held online and Metaverse map modeled after Sangsang Planet was also disclosed for the first time.

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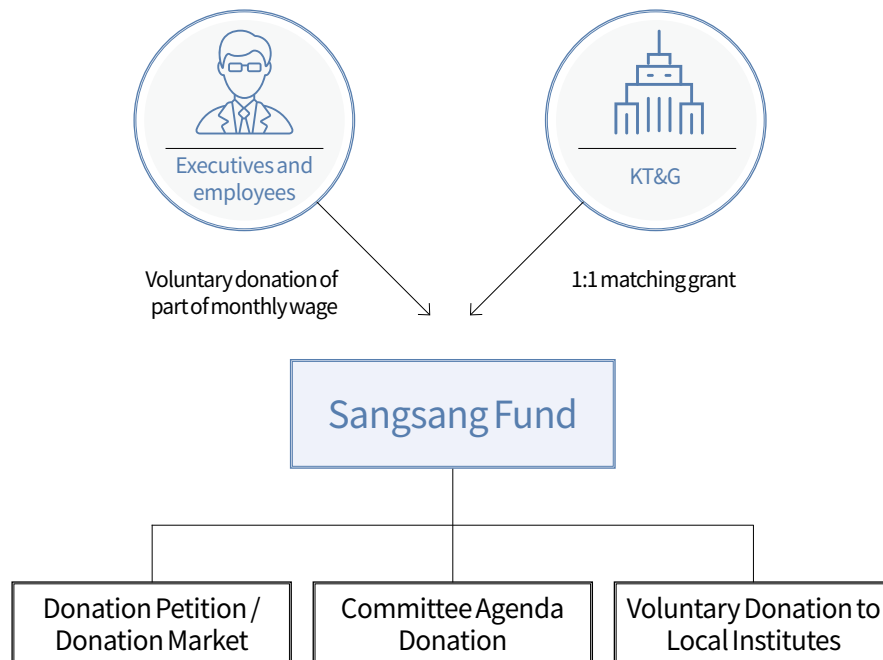
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Sangsang Fund



KT&G Sangsang Fund, which was launched in 2011 and marked its 10th anniversary in 2021, is a fund voluntarily raised by KT&G executives and employees with the goal to support neighbors in need in local communities and address urgent social issues. A total of KRW36 billion has been raised via Sangsang Fund until 2021 and more than 90% of executives and employees are participating in fundraising.

Overview of Sangsang Fund



Sangsang Fundraising and Operation

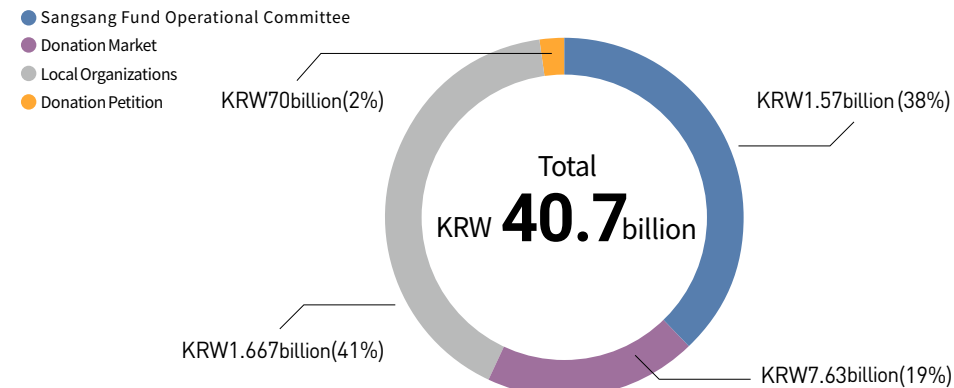
Sangsang Fund is a social contribution fund program based on 1:1 matching grant between employees' voluntary donation from their wage and the Company's of equal amount. Sangsang Fund Operational Committee composed of 11 employee delegates deliberates and resolves donation agendas to ensure transparent operation of the fund which is used for medical, educational and livelihood support for the underprivileged abandoned in welfare blind spot through Donation Petition and Donation Market programs. The Fund also goes to solving social issues that require private-government cooperation through voluntary donation to local organizations after resolution at Sangsang Fund Operational Committee. KT&G helps executives and employees be part of the whole process from fundraising to operation and search for recipients prior to donation. KRW4.07 billion was raised in Sangsang Fund in 2020 and cumulative fund raised and donated totaled roughly KRW36 billion.

Key Support Cases in 2021

In July 2021 KT&G sponsored KRW300 million in Sangsang Fund for medical practitioners combatting COVID-19. It was spent for buying and distributing cooling kits to medical practitioners fighting heat from wearing protective clothing through Korea Disaster Relief Association.

As a global corporate citizen, KT&G spent KRW350 million in education infrastructure support fund to provide quality education to countries with whom we have business partnership. It went to building an elementary school near Vientiane, capital of Laos, with target completion in 2022. 해외사업국 is also committed to making sure there is no blind spot when it comes to education and building an education infrastructure conducive to talent development.

2021 Sangsang Fundraising and Execution



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Donation Petition

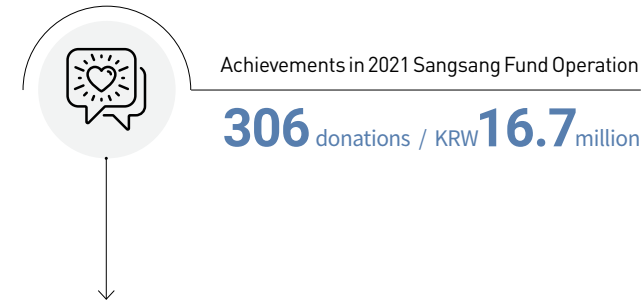
Donation Petition, which started in 2013, is a program in which donation proposal made by an executive or an employee identified from those left out in the welfare blind spot becomes eligible for approval upon review by 사회공헌부 if it gets more than 200 positive comments from KT&G executives and employees.

This Donation Petition goes to medical support, improvement in living environment, education, among many others, and shares wide-ranging benefits.



Donation Market

Donation Market, which was launched in 2015, is a program whereby KT&G executives and employees pick donation targets from among stories submitted via several channels including NAVER's Happy Bean, Welfare Foundation or recommendations from local organizations. The Company takes advantage of this program to not only support medical expense for the socially disadvantaged but also for overseas relief, environment and many others.



Engagement by Local Organizations

In order to provide closer support to the underprivileged in local communities, KT&G encourages its 20 marketing organizations and plant nationwide to search stories eligible for donation. In 2021, KT&G engaged in a total of 306 support activities across the nation. Throughout the year, the Company tapped KRW1.67 billion from Sangsang Fund to support medical expense, daily necessities for the elderly, the disabled, multicultural households and to improve living environment via local welfare facilities.

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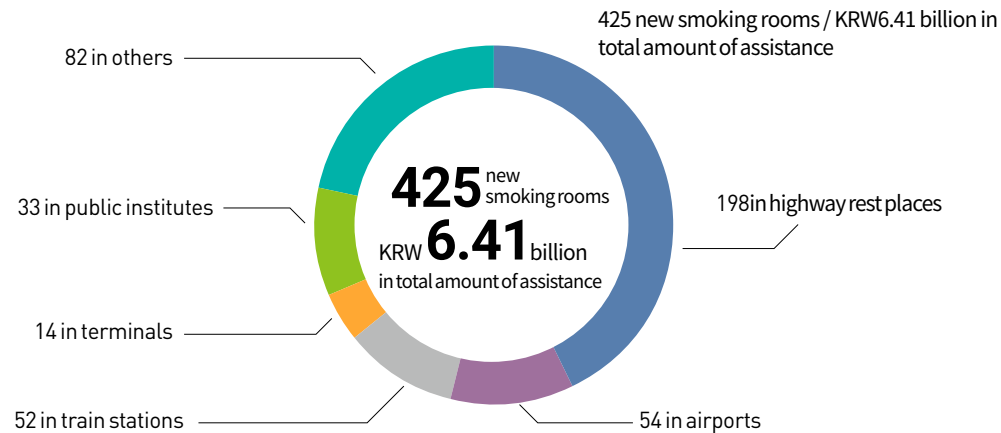
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03 Social Contribution

KT&G delivers its social responsibilities as a corporate citizen in the form of volunteering by executives and employees, environmental protection, improvement in smoking environment and support for the underprivileged in local communities. KT&G will keep up the momentum and exert best efforts to drive shared growth with local communities where our business activities will have a presence.

where our business activities will have a presence.



Kimchi-making



'Coloring kit' by KT&G Employee Volunteering Group



Improvement of Smoking Environment



Exclusive cigarette butt collection box

Kimchi-making and winter supplies for the underprivileged in local communities



In 2021, KT&G supported approximately KRW150 million in Kimchi and winter supplies to neighbors in local communities at risk in the cold winter due to prolonging COVID-19. KRW55 million was spent for Kimchi-making and heating fuel delivery and another KRW90 million went to coal donation, which is related to coal briquette run volunteering activities joined by KT&G volunteering group.

Sangsang Together Employee Volunteering Group



In 2021, employee volunteering activities switched to 'online' due to re-spread of COVID-19. Online 'Coal Briquette Run' volunteering activity of donating coal briquette as much as the mileage by executives and employees launched at the end of 2021 to share warmth with others was joined by 200 executives and employees who donated 60,000 coal briquettes. 'Coloring kit' program drew 330 executives, employees and their families who designed T-shirt each for donation to the underprivileged and orphanages in Indonesia, which is one of KT&G's partner countries.

Improvement of Smoking Environment



KT&G taps into its core capabilities to actively deliver its social responsibilities in areas that are related to the Company's businesses. To address concerns around secondhand smoking and illegal straying of cigarette butts, we have been continuing the initiative to build smoking rooms in multi-use facilities. In 2021, we opened 65 smoking rooms largely in airports and train stations to add cumulative number of smoking rooms to 425 nationwide. Along with this, KT&G launched a pilot project to install exclusive collection box of cigarette butts to eliminate illegal straying of cigarette butts. To this end, we installed 147 exclusive collection boxes in Seoul, Busan and four other major regions and plan to expand it across the nation in 2022.

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04 Global CSR Activities

As a global corporate citizen committed to fulfilling its social responsibilities, KT&G explores a strong set of global CSR programs based on mid-to-long-term strategies. KT&G is constantly evolving/advancing CSR operation model in Indonesia in which the Company has the biggest business presence overseas and serves as a symbol of KT&G's global business expansion. With the CSR model, we are solving issues in the local communities of Indonesia, thereby building a strong foundation to grow together with communities. KT&G is also implementing CSR activities in other partner countries like Turkey and Russia and countries in need such as Cambodia and Laos.



Delivered COVID-19 test kit to Turkey



Delivered COVID-19 test kit to Russia



Created 'Sangsang Forest' in Mongolia



Indonesia Korean language school



Vocational training center in Indonesia



Supported water purifiers to Tanzania



Built elementary school in Laos



Sangsang Univ. Indonesia Barista Class



Sangsang Univ. Indonesia Online Festa

Sponsored **KRW 19.2 billion** in Cumulative
Amount Across **13 countries** in 2021

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KT&G Sangsang Univ. Indonesia

KT&G operates Sangsang Univ. in Jakarta to enhance Indonesian university students' cultural literacy and help them grow. We provide a variety of experiences and exchange opportunities, which local university students that not generally exposed to, along with cultural arts, hobbies, and career development content. In 2021, we opened a real-time online class, breaking down barriers to allowing university students outside Jakarta to join the course. We also expanded employment/startup training opportunities to solve local social problems. Furthermore, we held an online Festa for Indonesian college students, who have had fewer opportunities to experience culture due to COVID-19, and provided non-face-to-face performances by localsingers.

In addition, KT&G is operating a Korean language school in Surabaya for cultural exchange between Korea and Indonesia. Korean language classes were conducted where residents, including general college students, could participate, and in 2021, a total of 376 people participated in the curriculum. Furthermore, in 2021, about 35,000 people participated in KT&G Sangsang Univ customized for the local area. As we advance, we plan to faithfully fulfill our role as a global corporate citizen through the Indonesian program.

Indonesia job creation support project

In 2019, KT&G opened Coffee Lab in Indonesia to help create jobs for the young men and women in Indonesia. In Mar. 2021, the Company opened vocational dressmaking training center in UKCW University located in Malang, Indonesia to help the disadvantaged stand on their own feet. In 2021, 141 Indonesians were trained at the vocational training center where KT&G provided training on dressmaking skills and others needed to engage in economic activities. Skills and techniques learned from the Center allow trainees to find a job and start clothing business of their own, which in turn enable KT&G's global CSR to create a virtuous cycle in the local communities in Indonesia. Coffee Lab, which is a vocational training school specializing in coffee, opened eight barista classes in 2021 in alliance with KT&G Sangsang Univ. Indonesia. 80 students attended the classes, which played a major role in enhancing interest in Indonesia's coffee industry and expanding vocational training.

Global Disaster Relief

KT&G stands at the frontline of disaster relief to solve global issues. When the number of COVID-19 patients in serious condition soared and so did hospital bed occupancy as a result of COVID-19 variant, which spread rapidly in 2021, KT&G donated medical oxygen concentrators and KF94 masks to Indonesia and Russia through cooperation with governments of both countries. Supplies for relief totaled KRW200 million in value. In appreciation of the donation, Indonesian government awarded KT&G Minister of Health Award. We also donated 35,000 seedlings to Turkey in order to restore forests damaged by serial mountain fire. Tree planting is scheduled at the end of 2022 after soil investigation and restoration. KT&G's commitment to social responsibilities as a global corporate citizen will stay strong.

Education Support in Laos

KT&G implements projects to improve educational environment in developing nations in need of humanitarian support. In 2021, the Company provided support to facilities expansion at 캄빠네-KT&G Elementary School built in 2019 and another elementary school in need of facilities upgrade in 논개오 near the capital city of Vientiane. Objective of the project is to improve educational environment in Laos struggling from COVID-19 through collaboration with the Laos government. The work is currently underway by reflecting knowhow gained from building and operating schools with target completion for 논개오-KT&G Elementary School scheduled in Nov. 2022. KT&G will consider sending Volunteering Group during the construction period if COVID-19 eases. We look forward to the two schools playing central roles in building a wider talent pool for the country.



Sangsang Univ. Indonesia Vocational Training Center on Sewing



Global Disaster Relief



Education Support in Laos

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Shared Growth



KT&G purchases the entire leaf tobacco production of farmhouses, which are our sources for raw material, for shared growth and stable production of leaf tobacco. We also run a wide array of other programs for shared growth including support for additional income creation, financial support, volunteering activities at farmhouses and communication channel, etc.

Shared Growth with Leaf Tobacco Farmhouses

KT&G's Hearin Chili Pepper Powder Project helps leaf tobacco farmhouses to utilize their farm land, farming skills and other resources to increase their chili pepper harvest and sales. This helps farmhouses to generate additional income source beyond leaf tobacco. In 2021, we signed an agreement with 19 farmers from whom we purchased KRW203 million worth of dried chili pepper.

*Hearin: chili pepper harvesting and sales support project to help leaf tobacco farmhouses Achievement of Hearin sales support in 2021



Achievement of Hearin sales support in 2021

Number of farmers **19** Dried chili purchase volume **10,680** kg Purchase amount KRW **203** million

100% Purchase of Leaf Tobacco from Farmhouses

KT&G purchases the entire leaf tobacco from domestic farmhouses for production to ensure their stable farming business and create shared value. In 2021, we purchased 8.031 tons of leaf tobacco worth KRW80.2 billion. In 2022, we plan to purchase approximately 8,000 tons of leaf tobacco.



Achievement of 100% Purchase of Leaf Tobacco from Farmhouses in 2021

Number of farmers **2,854** Purchase amount KRW **80.2** billion

Shared Growth with Leaf Tobacco Farmhouses

KT&G engages in a wide variety of support activities to drive shared growth with leaf tobacco farmhouses. For example, we make 30% of purchase payment interest-free in advance in April ~ May so as to help farmhouses buy agricultural equipment or pay for personnel expenses, etc. We also make payment in cash for better liquidity, which improves welfare of farmhouses and put them in a better position to overcome COVID-19.

In 2020 and 2021, KT&G delivered condolence money to leaf tobacco farmhouses damaged by natural disasters to support their quick restoration. Other programs for shared growth with farmhouses include welfares such as medical check-up for farmers and scholarship for their children, etc.

Furthermore, our executives and employees proactively volunteer themselves during leaf tobacco planting and harvesting period to make up for labor shortage. In addition, from 2021, we are promoting the simplification of leaf tobacco trimming packaging and occasional purchase of joint trimming packaging.



Assistance to farmhouses in 2021 (cumulative)

Number of farmers **7,002** Amount of assistance KRW **2.85** billion

Low-interest Loan Support to SMEs

KT&G signed Agreement for Shared Growth with IBK Industrial Bank of Korea as part of the effort to promote local economy and create jobs by supporting SMEs. Subsequently, we support low-income loan to SMEs located in Choongcheong province. As per the Agreement, KT&G deposited KRW100 billion to IBK's account, which was used as the source to raise KRW200 billion in fund that goes into supporting low-interest loan to five areas including business foundation and the self-employed in Daejeon, Sejong and Choongcheong province.



Support from Shared Growth Fund in 2021

Number of recipient companies (cumulative) **722** Amount of interest deduction KRW **1.15** billion

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Eco-friendly CSR for Protecting Earth Environment



Marine Environment Protection Project

KT&G is deeply involved in addressing environmental issues escalated by plastic wastes destroying marine ecosystem, which has become a serious global issue. In 2021, we launched marine ecosystem protection project aimed at restoring biodiversity together with Korea Marine Pollution Response Corporation and Ocean, which is a private institution. In Busan and South Gyeongsang province, 260 members from Employee Volunteering Group joined coastal clean-up activity and collected around seven tons of waste. In underwater clean-up activity, professional divers collected around 100kg of underwater waste. At Sangsang Madang Busan, we opened discussions on environmental issues with 1,500 visitors to Junk Art Exhibition.

Forestation at South Korea and Abroad

KT&G executives and employees explored a project to drive shared growth with local communities with the goal to engage in the Company's ESG guidelines and cut carbon footprints in Korea and overseas where KT&G has a business presence. To this end, executives and employees tapped into Sangsang Fund for fundraising and spent KRW210 million for forestation.

In Korea, we built 'KT&G's First Forest' to make national trail in Daegwanryeong carbon-free. Around 1,000 trees were planted on 1.5ha(around 4,500 pyong) of land in the first half of 2022. For forestation, executives and employees saved one tree each from 'plogging', which is a combination of jogging with litter picking up. Through forestation in Daegwanryeong, which is tied with phase two activity of KT&G's eco-friendly campaign 'Feel Green', KT&G not only contributed to carbon neutrality but also enhanced employees' awareness on environmental protection.

In Mongolia where KT&G has a business presence, KT&G opened 'Sangsang Forest' to help Mongolia find solutions to such issues as desertification. Around 500 households from local communities took part in building the self-supporting 'Sangsang Forest' on a 1ha land, which is mostly pine trees. This urban forest is located close to 'Korea-Mongolia Friendship Forest' built by Korea Forest Service. Unveiling ceremony of 'Sangsang Forest' sign and tree-planting was held in October last year in the presence of top-ranked officials from Mongolia's Ministry of Environment. This was followed by Mongolian President Khurelsuk and Minister of Environment's visit to the site both of whom showed their strong support for the project whose direction is aligned with 'National Movement for One Billion Trees'(one household - one tree-planting campaign) in pursuit by the Mongolian government.



'Feel Green' Environment Campaign Engaging Executives and Employees



'Junk Art Exhibition',
Marine Environment Protection
Project



'Daegwanryeong National Trail
Forestation for Shared
Growth towards Carbon Neutrality'

'Feel Green' Environment Campaign Engaging Executives and Employees

KT&G launched 2021 「Feel Green Campaign」, which is an environmental campaign engaging executives and employees with the goal to draw support for 'KT&G GREEN IMPACT' set as the Company's' mid-to-long-term vision for the environment and to get involved in environmental protection activities. 'Feel' carries a dual meaning - executives and employees must take actions for environmental protection, feel the changes brought on by it. The Campaign was implemented in three phases.

In phase one, the Campaign encouraged the use of non-disposables to cut down on trash created from daily lives. Phase two focused on communicating environmental issues by involving executives and employees in plogging, and picking up trash near KT&G HQ. The final phase elevated interest in eco-friendly products by making upcycled pouches and selling them in in-house bazaar. This added greater significance for KT&G as the Company made pouches from waste banners collected from KT&G centers nationwide and donated revenues from selling them to Environment Education Center.

Around 1,900 KT&G executives, employees and their families participated in the phased Feel Green Campaign. By encouraging employees to be involved in the Campaign and be a pleasant part of environmental activities, the Company enabled employees to feel the importance of being eco-friendly for themselves and commit themselves to environmental protection on a sustainable basis.

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'Sseudam Sseudam' Campaign

Sseudam Sseudam Campaign

Sseudam Sseudam Campaign by KT&G is aimed at addressing earth environment pollution caused by illegal straying of cigarette butts and trash. 'Sseu' is the first syllable meaning trash bin in Korean and 'dam' is the first syllable meaning cigarette butt in Korean. Combine the two syllables and it means 'please throw cigarette butts in a trash bin'. The activity kicked off in 2020 based on the proposal from 'Sangsang Realization Committee', which consists of young employees and discusses ideas to improve corporate culture.

To enhance consumer awareness, KT&G applied 'Sseudam Sseudam' pictogram in KT&G products(around 70 products) sold in the domestic market from May 2021. KT&G put notice sign of the Campaign in convenience stores(46,000 stores) nationwide to renew smokers' awareness and improve smoking manner, thereby promote environmental protection. Campaign slogan is also attached to 1,200 corporate vehicles.

KT&G is also serious about building the right infrastructure including smoking rooms and cigarette butt collection boxes to keep consumers from illegally straying trash. We opened 65 smoking rooms in airports and train stations in 2021 and total number adds up to 425 on a cumulative basis. Reflecting our commitment to eliminating illegal straying of cigarette butts, we installed 147 exclusive collection boxes of cigarette butts in pilot in six regions nationwide including Seoul and Busan. Based on what we did in 2021, we plan to expand the pilot program to across the nation, hand out portable ashtray and move into other new initiatives.



Eco-friendly Water Purifiers to Tanzania

Eco-friendly Water Purifiers to Tanzania

KT&G supplied 1,300 eco-friendly water purifiers worth KRW240 million to local elementary schools in Tanzania from where we import leaf tobacco raw materials. The gravity type filter water purifiers that we supplied not only addresses shortage of drinking water and waterborne diseases but also does not require energy as it displaces the past method of purifying water by burning heavy carbon-emitting fuel such as fossil fuel and trees to heat water. This allows around 260,000 students in Tanzania to have access to as much as 340 million liters of clean filtered water a year, which can also lead to carbon emission cutback by up to 13,000 ton/year.

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The Tree Growing with 'Creativity'

KT&G supports young and creative writers and artists with passion so as to let everyone share the value of culture and art with ease and pleasure. 'Sangsang Madang', which is an open culture space KT&G operates as part of MECENAT activities, is a venue on which creators can deliver their imagination and talents to the fullest and the general public can have access to new ideas and the world of young, original culture. KT&G aspires to create a cultural ecosystem based on communication-driven support, which is differentiated from the general cultural activity support found in other businesses. 'Sangsang Univ.', which has positioned into Korea's no. 1 community of university students, provides the platform for university students who will grow to become future leaders to learn and interact with each other in various fields such as culture, art and career, thereby open up new future and possibilities.

OUR SOCIAL IMPACT

Sangsang Madang KRW 17.6 billion

Sangsang Univ. KRW 5 billion

Total KRW 22.6 billion

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Sangsang Madang

Sangsang Madang is Korea's leading culture and art complex that is home to a wide variety of programs from performances to movies, exhibitions, experiences, culture and art and education, etc. It is where KT&G shares culture contents with the general public and supports artists' creative activities to build a cultural ecosystem from production all the way to consumption. Sangsang Madang also plays a leading role in creating a new culture by promoting and sharing new trends.

‘Sangsang Madang’, the Culture and Art Complex in Our Lives History

Hongdae

Opened in Sept. 2007

Culture and Art Complex in the City

KT&G Sangsang Madang Hongdae is a B4 ~ F7 culture and art complex opened in September 2007. It avails space for design, exhibitions, academies, cinema, performances and café in support of various artistic activities and exchanges. By supporting original and creative works of artists and offering greater opportunities for the general public to enjoy art and culture, KT&G Sangsang Madang Hongdae contributes to building a new culture.



Nonsan

Opened in June 2011

Space to Experience Culture and Art in Nature

KT&G Sangsang Madang Nonsan is a suburban experience-oriented culture and art complex where adults and teenagers can experience creative education and enjoy special cultural experience in their daily lives. Built to enrich cultural infrastructure in local communities, the nine buildings in Sangsang Madang Nonsan accommodate gallery, art hall, café, hotel, education hall, restaurants and mini swimming pool, etc.



Chuncheon

Opened in April 2014

Encounter of Art and Stay

KT&G Sangsang Madang Chuncheon is a culture complex whose building has been remodeled from Gangwon Sports Centers under the concept of ‘Art Stay’. Located in the waterfront of Euiahm Lake boasting a beautiful scenery, Sangsang Madang Chuncheon consists of ‘Art Center’, which is home to performance hall, live studio, gallery, lecture rooms and café, and ‘Stay’, which has practice rooms for music and performances, guest rooms and seminar rooms, etc.



Daechi

Reopened in April 2017

Multi-purpose Performance Hall

KT&G Sangsang Madang Daechi Art Hall stages plays, concerts, musicals and various other performance genres. Signature works in Korea's performing business ranging from plays to concerts and musicals were staged in Sangsang Madang Daechi Art Hall. It is contributing to taking Korea's performing arts to a higher level by giving full support to original and creative performances never tried before.

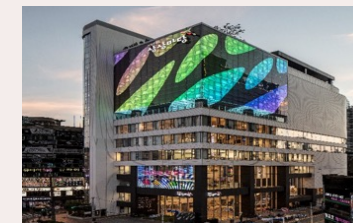


Busan

Opened in September 2020

Space for Art and Social Contribution

KT&G Sangsang Madang Busan in a B5~F13 building is the largest Sangsang Madang in service. Culture zones in Sangsang Madang Busan consisting of café, design, performance hall, gallery and movie theater allow all visitors to refresh themselves and enjoy culture at the same time. Creators' creative work, space supporting start-ups, accommodation, F&B facilities and diverse contents add excitement to visitors as well.



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Sangsang Madang Hongdae Renewal

Love for Cinema – Sangsang Madang Cinema Renewal

Sangsang Madang Cinema located at B4 has positioned itself into the signature theater for independent art films since 2007. It not only plays independent films but also supports film distribution, image correction(Cinelab) and hosts Daedanhan Short Film Festival as part of its efforts to present rich film-related contents for moviegoers and audience who love short art films. In 2021, Sangsang Madang Hongdae prepared 'New Sangsang Madang Cinema' to support the film industry marred by COVID-19 and provide a better experience and services to fans. It opened in Jan. 2022. To keep in pace with diverse social trends such as the growth of OTT and growing needs for meeting face-to-face, New Sangsang Madang Cinema adopted the so-called 'community cinema', which explores various contents away from the classical one-way film watching and facilitates two-way communication between audience and filmmakers.

New Sangsang Madang Cinema added a rich list of new programs such as free theater rental for filmmakers and film community contents management while keeping intact existing programs high in demand such as Daedanhan Short Film Festival. This program renewal is accompanied by facilities upgrade such as laser projector, new seats and lobby and outdoor stairway remodeling for greater user convenience. The 76-seat theater and small private premiere room at Sangsang Madang Cinema will serve as the center for creating distinct contents, driving film industry's growth and offering new experiences to audience.



Sangsang Madang X I got everything – Opened Café hiring Severely Disabled Baristas

In Dec. 2021, 'I got everything', a café opened on the third floor of Sangsang Madang Hongdae in collaboration with Korea Disabled People's Development Institute with the goal to create jobs for the severely disabled. 'I got everything' is a gallery café that avails itself for exhibiting art works and holding culture and art events to be consistent with the nature of Sangsang Madang Hongdae as a culture and art complex.

Keep your eyes on KT&G Sangsang Madang Hongdae, which is going beyond supporting cultural and artistic aspirations for up-and-coming artists to creating sustainable jobs for the severely disabled.

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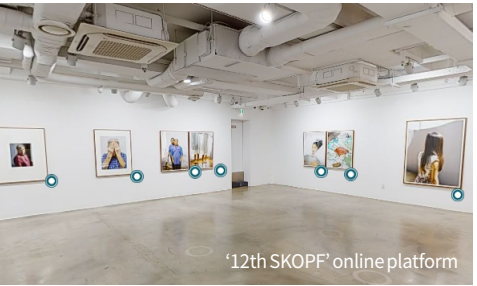
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Moves to Enlarge Contact between Artists and Audience via Online Programs

Sangsang Madang did not suspend its support for artists even during the COVID-19 pandemic situation as KT&G believed in helping them imagine their dreams to the fullest. Aware of the challenges in face-to-face contact, Sangsang Madang instead turned to online programs. ‘Picturesque House’ exhibit drew around 170,000 visitors to the online platform and ‘12th SKOPF’, which is KT&G Sangsang Madang’s exhibition supporting photographers, attracted around 25,000 visitors. The online ‘Band Discovery – TOP 5 Performance’, which is Sangsang Madang’s band artist competition program, was viewed by approximately 7,500 fans. These all suggest Sangsang Madang’s commitment to connect artists who had less offline opportunities to showcase themselves with the general public in need of cultural experience, and even enlarge the encounter between the two.



Performance Program Connecting Artists with Audience



Sangsang Madang runs performance planning, artist support and performance hall operation service to offer fresh cultural experience to audience and provide a platform in which rookie artists can communicate with the public. ‘Performance support program’, which is the signature program in the field of performance, gives greater opportunities for artists to present themselves on stage. ‘Band Discovery’, which is part of the performance support program, targeted amateur musicians and two winner teams were presented with KRW2 million in prize money, budget for single album production and a chance for joint concert with professional musicians. Sangsang Madang also hosted contest-type ‘Sangsang Funding Concert’ and solo concert-type ‘My First Concert’ in a bid to support professional musicians. ‘Sangsang Funding Concert’ is an interactive concert in which audience enjoy the performance and fund it. KT&G gave another 100% of the fund raised to the two best teams who were also given a chance to use live hall at Sangsang Madang Hongdae for free. ‘My First Concert’ offers musicians to stage their first solo concert. The opportunity went to six teams who demonstrated their musical imaginations without constraints. At ‘Label Day’, which is a music label support program, KT&G gave six labels an opportunity to use live hall at KT&G Sangsang Madang Hongdae for free and also paid for live filming of the performance.

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10100 Exhibition

<4th Over the Rainbow> Sharing Dreams and Hopes of the Disabled

<Over the Rainbow>, which is an exhibition of disabled artists held in Sangsang Madang Hongdae, Chuncheon and Busan, marked its 4th year in 2021 with support from KT&G Welfare Foundation. At the 4th exhibition, 120 artworks embracing the dreams and hopes of 10 artists with developmental disorders were selected among those recommended by local institutes where Sangsang Madang is located. For the disabled artists, it was an opportunity for them to discover their potential. For the public in general, it was an opportunity to expose themselves to a new field of culture and art.

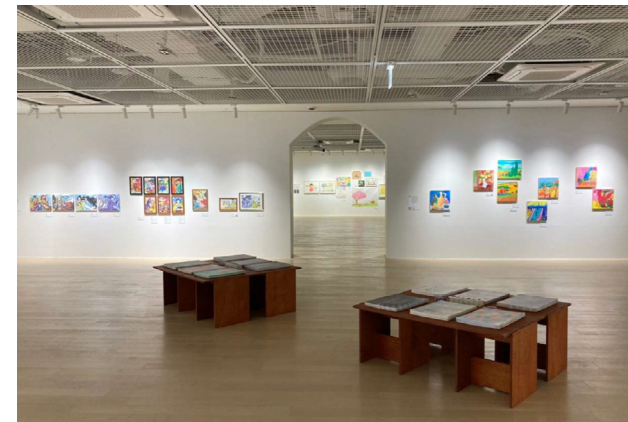
The 4th Over the Rainbow arranged a barrier-free space providing sign language and subtitles in the introduction for greater convenience to the disabled visitors. Also, exhibition brochure and collection added Braille to better serve the disabled. It drew a great feedback from 3,000+ visitors.

Exhibition Program to Shine Rookie Artists

KT&G organizes various exhibitions and visual art workshops to expose audience to greater culture and art opportunities and support artists. At the same time, the Company offers the venue to open debate on contemporary art, thereby create new value in local culture and art.

100 Artworks Exhibited by 10 Young Artists <10100 Exhibition>

On the occasion of the 10th anniversary of 'KT&G Sangsang Fund' in 2021, which is the voluntary executive and employee donation program, KT&G supported young artists whose opportunities for performance and exhibition were blocked by COVID-19 with the fund raised from KT&G employees. The feature exhibition titled '10100: Remember the Last 10 Years and Imagine the Next 100 Years' exhibited 100 works by 10 young artists who were selected from the Recommendation Committee representing Hongdae, Chuncheon, Busan and Nonsan where Sangsang Madang is located and exhibited artworks representing each region. In Aug. 2021, the exhibition took off in Sangsang Madang Hongdae and later stretched to Sangsang Madang Chuncheon and Sangsang Madang Busan over a two-month period during when young artists were able to communicate with around 2,000 visitors through their artworks.

10100 Exhibition 4th Over the Rainbow

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Sangsang Madang Academy

Sangsang Madang Academy that Unlocks Ordinary Imagination

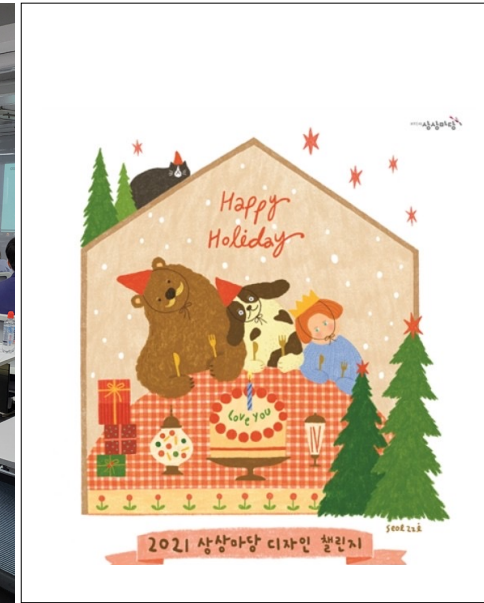
KT&G opened Sangsang Madang Academy in 2007 to broaden general public's exposure to culture and art. The Academy focuses on spreading education on creative work where life itself is another form of art by segmenting or merging culture and art genres that are close to our daily lives. 'Design Figure Creation', 'Bologne Image Book Workshop' classes break down the barrier between professionals and amateurs and give the public opportunities to experience new cultures. For professional artists, the Academy motivates them to push for new creative works. In 2021, KT&G swiftly switched to online operation as COVID-19 restrictions tightened and flexibly introduced new courses that could be taught online such as writing, creative work programs, among others, as part of our effort to build wider connection with students.



Design Challenge

Design Market for Independent Designers Transforming Imagination into Reality

SangSang Madang Design Market is a venue to discover up-and-coming designers in Korea. KT&G avails Design Market for product development, creative work and exhibition to bring life to designers' imagination and support their free works. Design Square where more than 300 brands and 2,000 creative products are on sale and <Design Challenge>, which is the program dedicated to support rookie designers, both enable Design Market to reemerge as the place for discovering and introducing new designers year after year.



Achievements in 2021 by Area (all five Sangsang Madangs)



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02 Sangsang Univ.

Sangsang Univ. is a community of university students that fuel young men and women's imaginations to realize social values. It is one of the original CSR programs by KT&G. In 2021, Sangsang Univ. gave 55,000 university students who struggle in the competitive environment from 13 local communities nationwide an opportunity to learn, grow and exchange with each other as part of the efforts to help them create a healthy culture on their own.



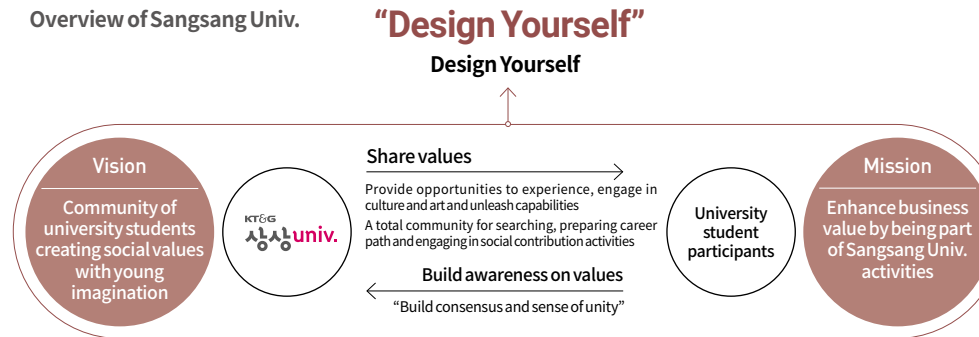
Original Musician Incubating Project by University Students Jib. Hyeon. Jeon.

Jibhyeonjeon unveiled in 2020 is a musician incubating project focused on promoting growth of university students who have the talents and passion for music into future artists.

In 2021, 243 teams composed of university students aspiring to become next-generation musicians applied to join the Project, which selected 12 finalist teams after the preliminaries. The 12 teams then got mentoring from top-ranked musicians in Korea before staging a performance at Comsta(competition+festa) before concluding their journey that lasted for four months.

KT&G not only presented the stage for university students in local communities to realize their dreams but also granted finalists with other benefits such as music producing, song release in local streaming site and a total of KRW30 million in prize money to further students' skills and aid journey towards their dreams.

Overview of Sangsang Univ.



A program to foster future marketing experts, 'Marketing School'

With the motto of 'nurturing young and competent marketing experts in the future,' KT&G has been operating a marketing school since 2010. The Marketing School, which celebrated its 14th anniversary in 2021, was conducted online through the Metaverse (3D virtual world) and SNS platform, reflecting the trend change of Generation Z and the quarantine situation due to COVID-19.

After taking an online education that encompasses marketing trends, corporate social responsibility, and understanding of startups, 1,112 college students performed a mission to produce a startup promotional video and propose a marketing strategy. Afterward, participants had time to improve their understanding of marketing practices by participating in marketing competitions on the Metaverse platform.

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‘HOPE’ Support Amount (Unit: KRW0.1 billion)

Category	2018	2019	2020	2021
Welfare Foundation	121	118	135.9	149.6
Scholarship Foundation	36	42	40	44.7
Sub-total	157	160	176	194.3

‘Shared Growth’ Support Amount (Unit: KRW0.1 billion)


Category	2018	2019	2020	2021
Sangsang Planet	155	81	92.9	16.7
Sangsang Fund	38	39	40.5	40.7
Social responsibility	21	28	9.2	18.5
Donation and sponsorship etc	71	16	22.7	21.6
Support for joint growth etc.	-	343	32.7	30.2
Sub-total	285	507	198	127.7

‘CREATIVENESS’ Support Amount (Unit: KRW0.1 billion)

Category	2018	2019	2020	2021
Sangsang Madang	175	287	269.2	175.6
Sangsang Univ.	52	52	25.8	42.5
Other	-	4	2.7	-
Sub-total	227	343	297.7	218.1

KT&G Social Contribution Network		
KT&G	www.ktng.com	T.080-931-0399
KT&G Welfare Foundation	www.ktngwelfare.org	T.02-563-4459
KT&G Scholarship Foundation	scholarship.ktngtogether.com	T.070-4124-6451
KT&G Sangsang Planet	www.sangsangplanet.com	T.070-7439-9436
KT&G Sangsang Madang	www.sangsangmadang.com	T.02-3404-4589
KT&G Sangsang Univ.	www.sangsanguniv.com	T.02-3404-4342

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