



# **SUSTAINABLE SEED FOR TOMORROW**

2021 KT&G ESG Highlights Report

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## RECOGNITION & AWARDS

This Highlight Report is a summary version of the 2021 KT&G Report. Through this report, we aim to enhance our stakeholders' understanding of KT&G's sustainability strategies and performance. Please refer to the 2021 KT&G Report for more detailed reporting standards, reporting boundaries, and third-party assurance statements.

### 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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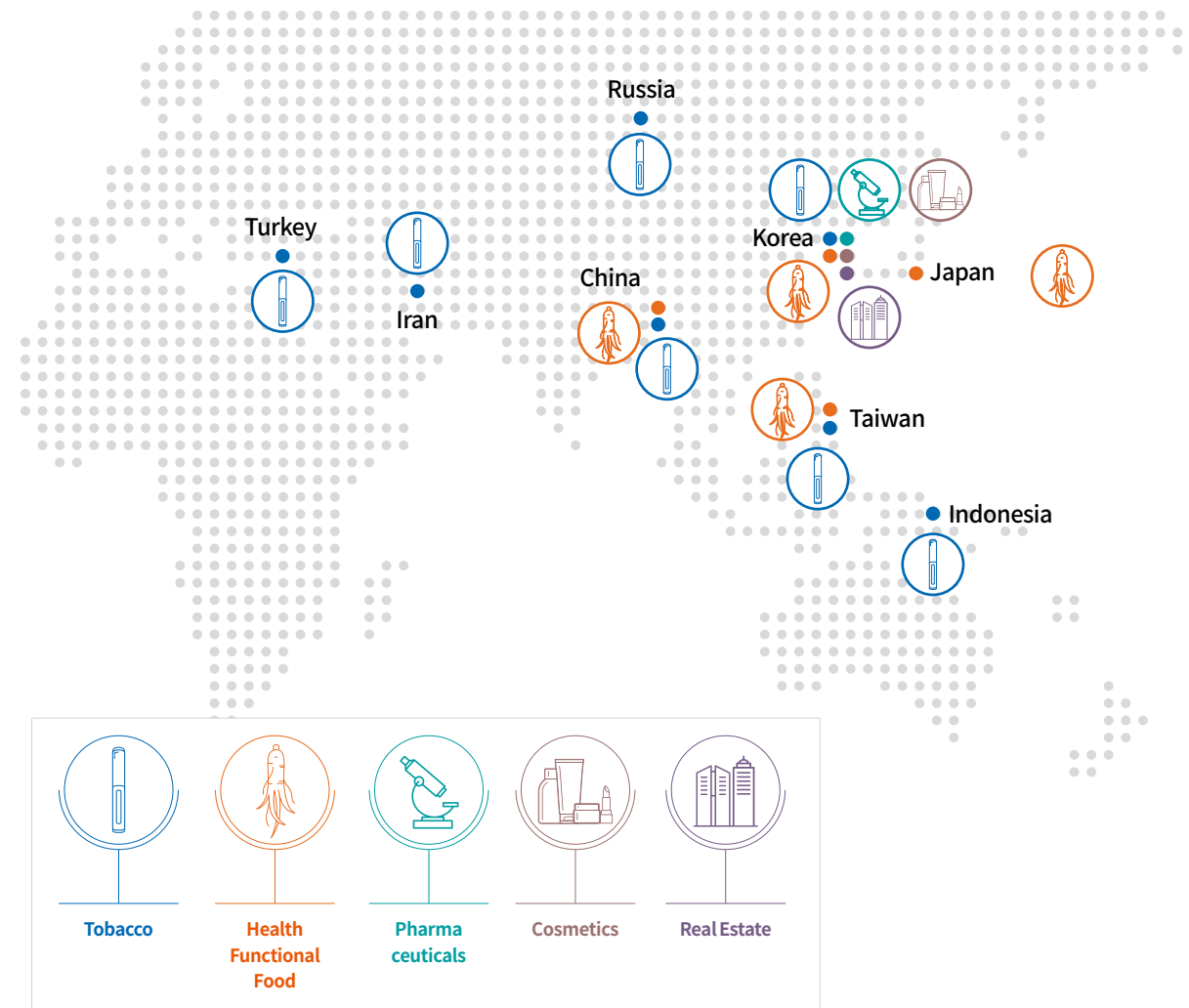
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# GLOBAL BUSINESS NETWORK

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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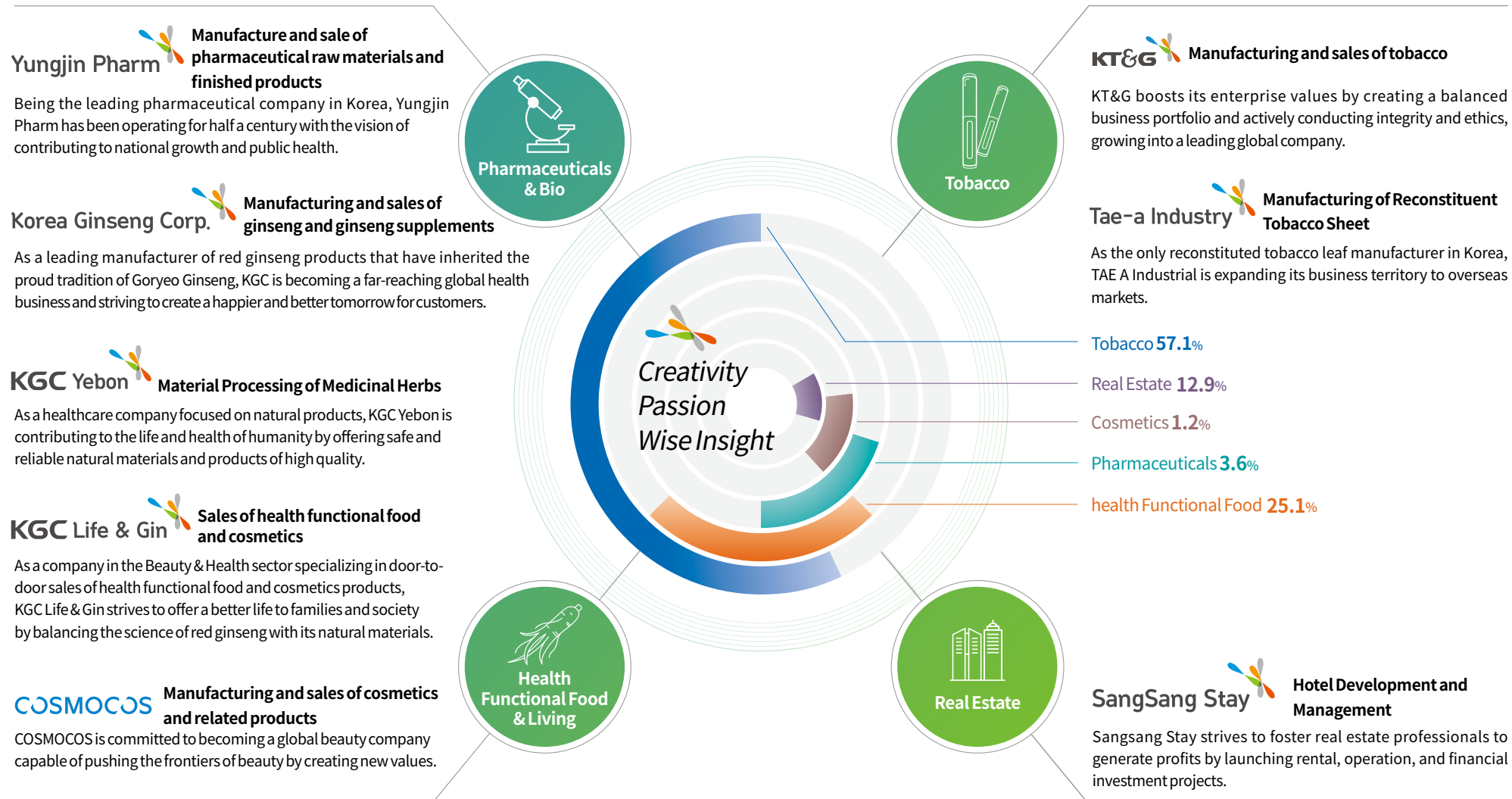
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# BUSINESS PORTFOLIO

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.



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# FINANCIAL HIGHLIGHTS

## 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

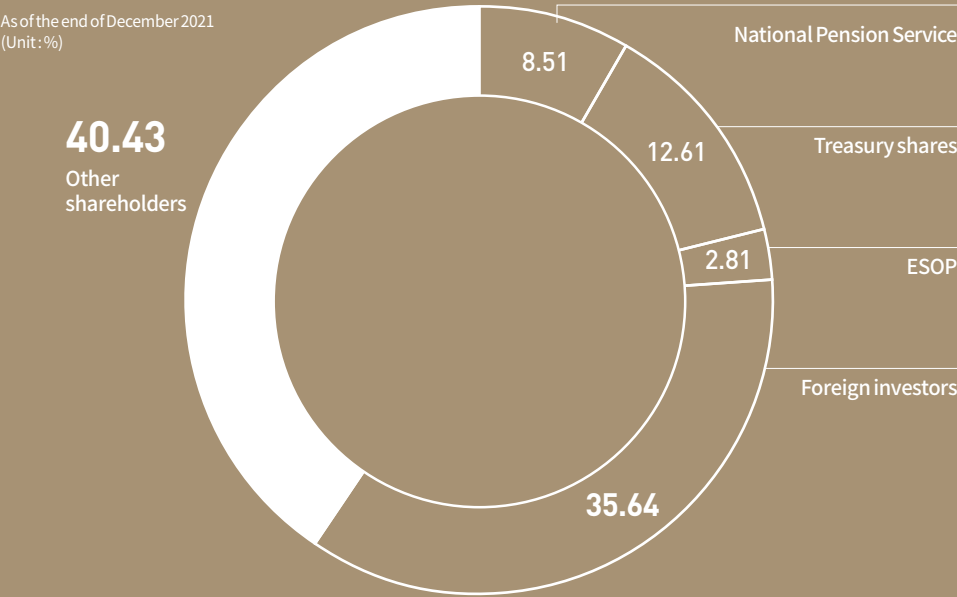
## Major Financial Statements

(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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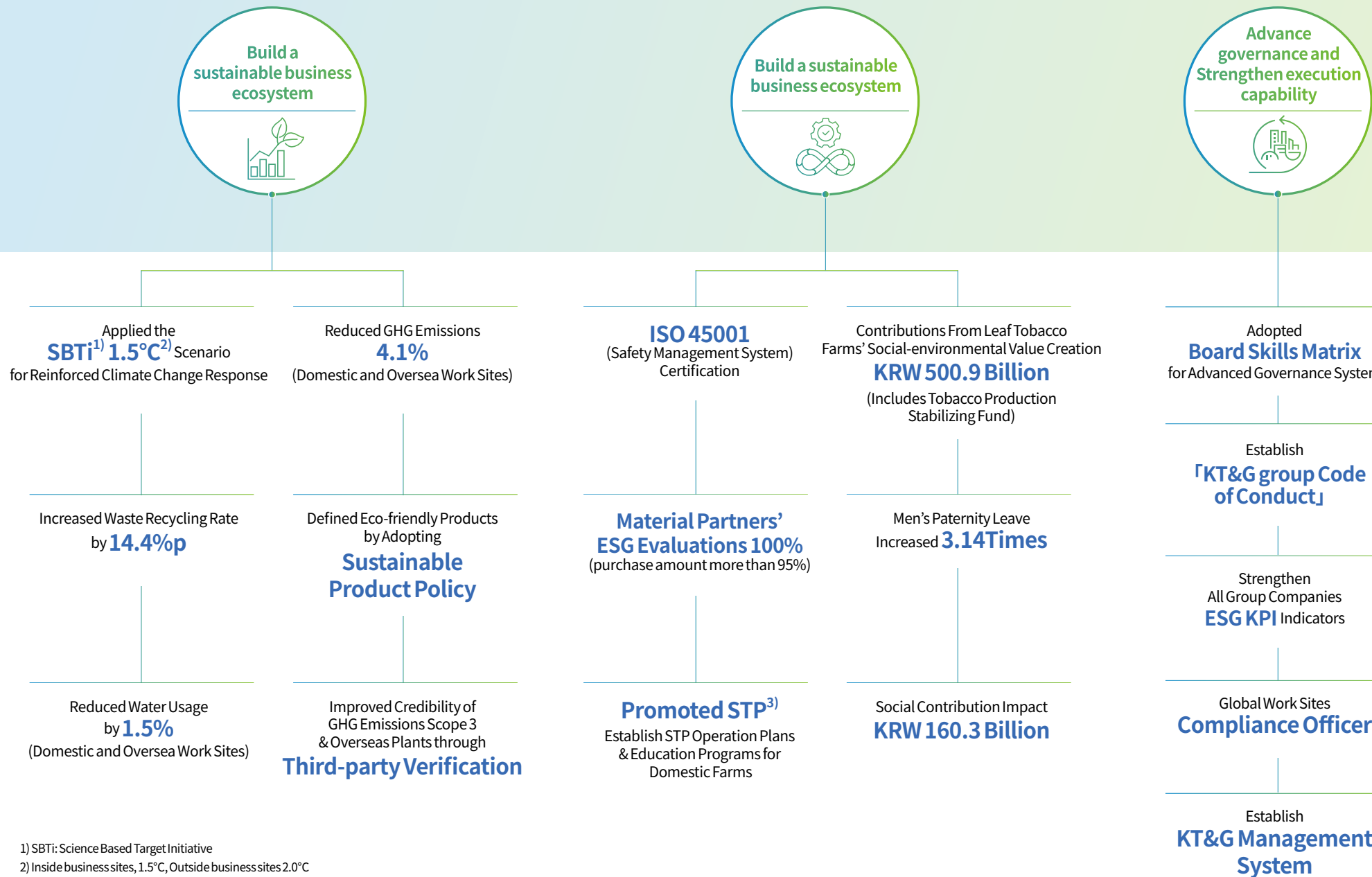
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# 2021 ESG PERFORMANCE HIGHLIGHTS



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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# APPROACH TO SUSTAINABILITY

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

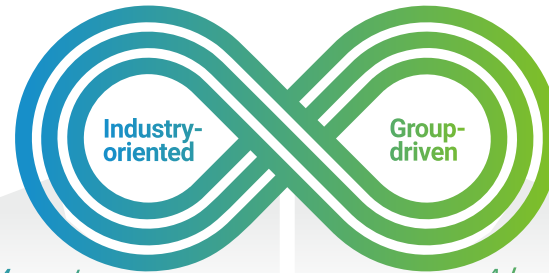
### Sustainability Strategy at the group level

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
<b>Tobacco</b> Diversify NGP portfolio Strengthen science-based NGP development capabilities Implement responsible marketing principles	<b>Health Functional Food</b> Establish an eco-friendly brand identity Strengthen R&D to secure efficacy evidence and competitive edges in technology	<b>Pharmaceutics-Cosmetics-Other</b> 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**  
Head of General Management (COO/CFO)



KT&G has restructured the six Strategic ESG 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, members, partners, and investors to achieve tangible results in ESG.



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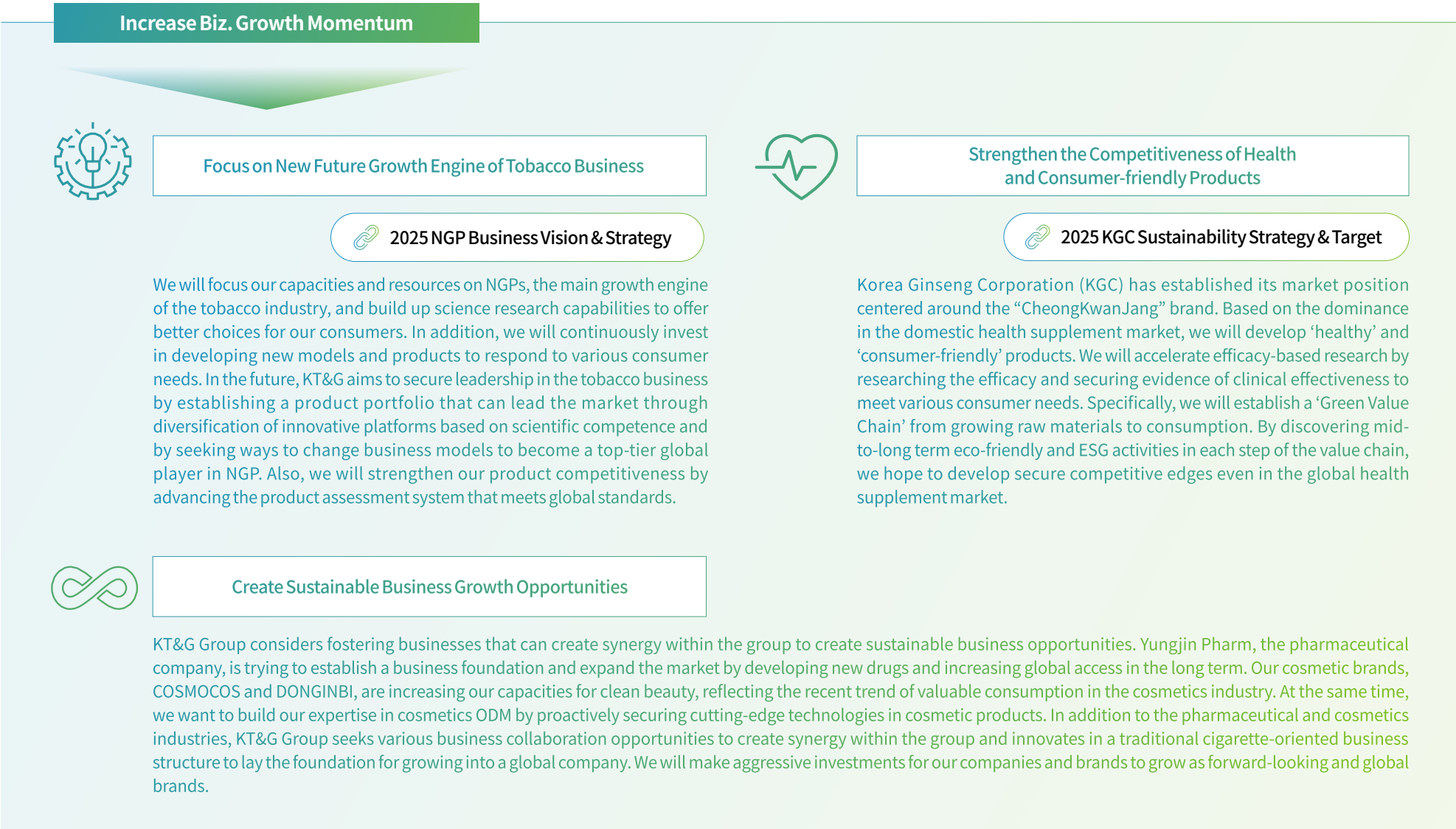
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KT&G Group Sustainability Strategic Pillars

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.

## 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

### Protect Biodiversity

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

### 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

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

## 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	Compared to the Previous Year ↓ 2.7%	Target Progress ▲ • Reduce <b>42%</b> by 2030 • Transition to 100% zero-emission vehicle for business use by 2030
		Updated Target GHG Emissions (Scope 3)	Domestic + Overseas	212,288 tons	204,962 tons	↓ 3.5%	▲ • Reduce <b>25%</b> by 2030
		Total	Domestic + Overseas	336,196 tons	325,478 tons	↓ 3.2%	▲ • Reduce <b>31%</b> by 2030 • Carbon neutral by 2050 (Scope 1,2,3)
	Accelerate the Circular Economy	Water Usage	Domestic + Overseas	572,576 tons	564,194 tons	↓ 1.5%	▲ • Reduce water usage <b>20%</b> by 2030
		Waste Recycling Rate	Domestic + Overseas	57.1%	71.5%	↑ 14.4%p	▲ • Achieve waste recycling rate <b>90%</b> by 2030
		Recycling Packaging Material Use (by Weight) <sup>1)</sup>	Domestic	93.0%	93.5%	↑ 0.5%	▲ • Use <b>100%</b> recyclable packaging materials
		Updated Target E-Cigarette Device Waste Material Reuse (by Weight) <sup>2)</sup>	Domestic	-	Review Establishment of System	→	▲ • Achieve more than <b>80%</b> 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	→	▲ • <b>100%</b> follow responsible marketing policies in Korea and exporting countries
	Reinforce Human Rights Protection	Worksites that Conducted Human Rights Effect Evaluation	Domestic + Overseas	HQ	HQ	→	▲ • All local & overseas HQ conduct human rights effect evaluation <b>100%</b>
	Improve Sustainability of Supply Chain	Updated Target Supply Chain ESG Capacity Management Area	Domestic + Overseas	Major domestic partners (materials, leaf tobacco farms)		→	▲ • A responsible SCM and a sustainable partnership - The main material partners of overseas business sites: conducting an ESG audit <b>100%</b> - Domestic leaf tobacco: supporting the farming environment through KTGO <sup>3)</sup> - Overseas leaf tobacco: strengthening the management of leaf tobacco farms to Peer Group level through STP <sup>4)</sup>
		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	▲ • Increase and materialize social and environmental values at leaf tobacco farms (Contributions <b>KRW 520 billion</b> )
		Amount of Value Chain Social Contributions <sup>5)</sup>	Domestic	approx. KRW 800 million	approx. KRW 1.5 billion	↑ KRW 700 million	▲ • Expand Value Chain social contribution <b>more than two-fold</b>

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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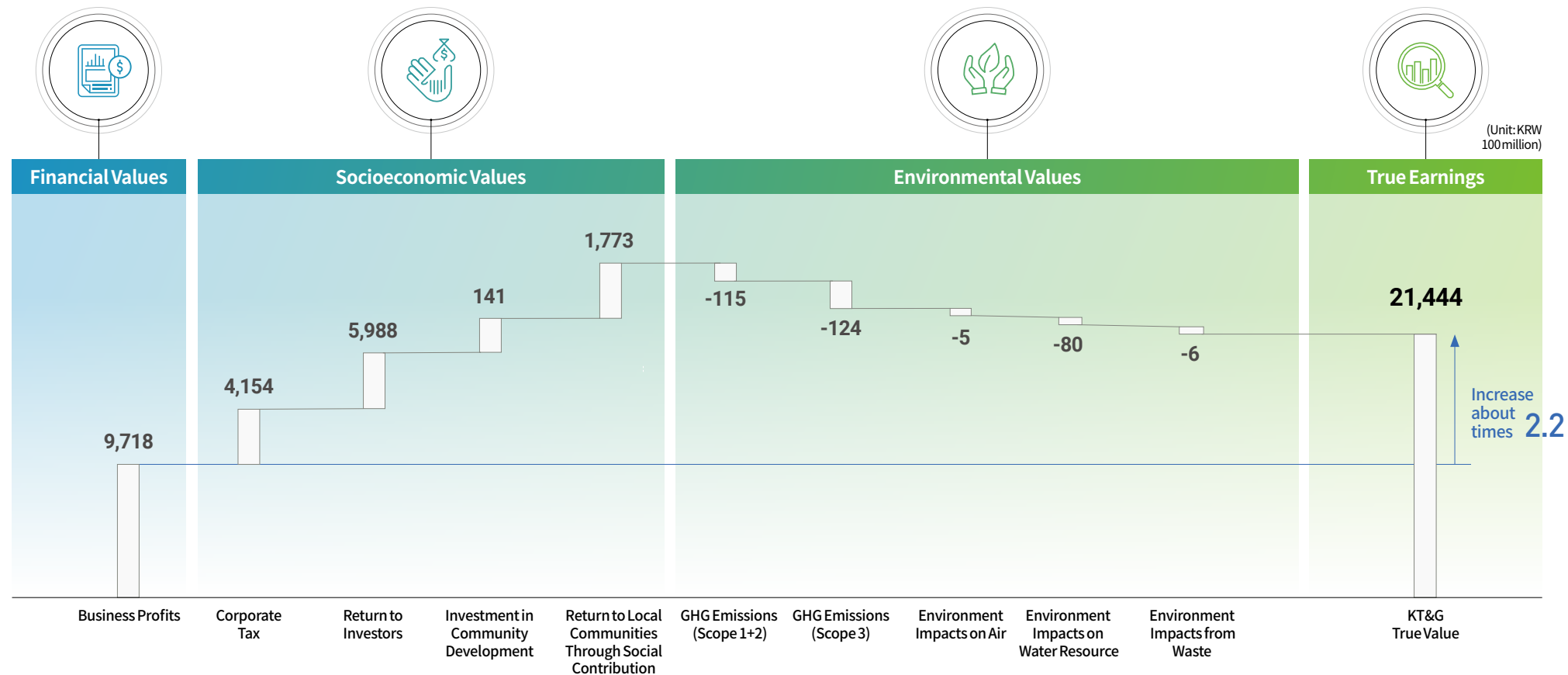
# OUR IMPACT

## 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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Part.1

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.

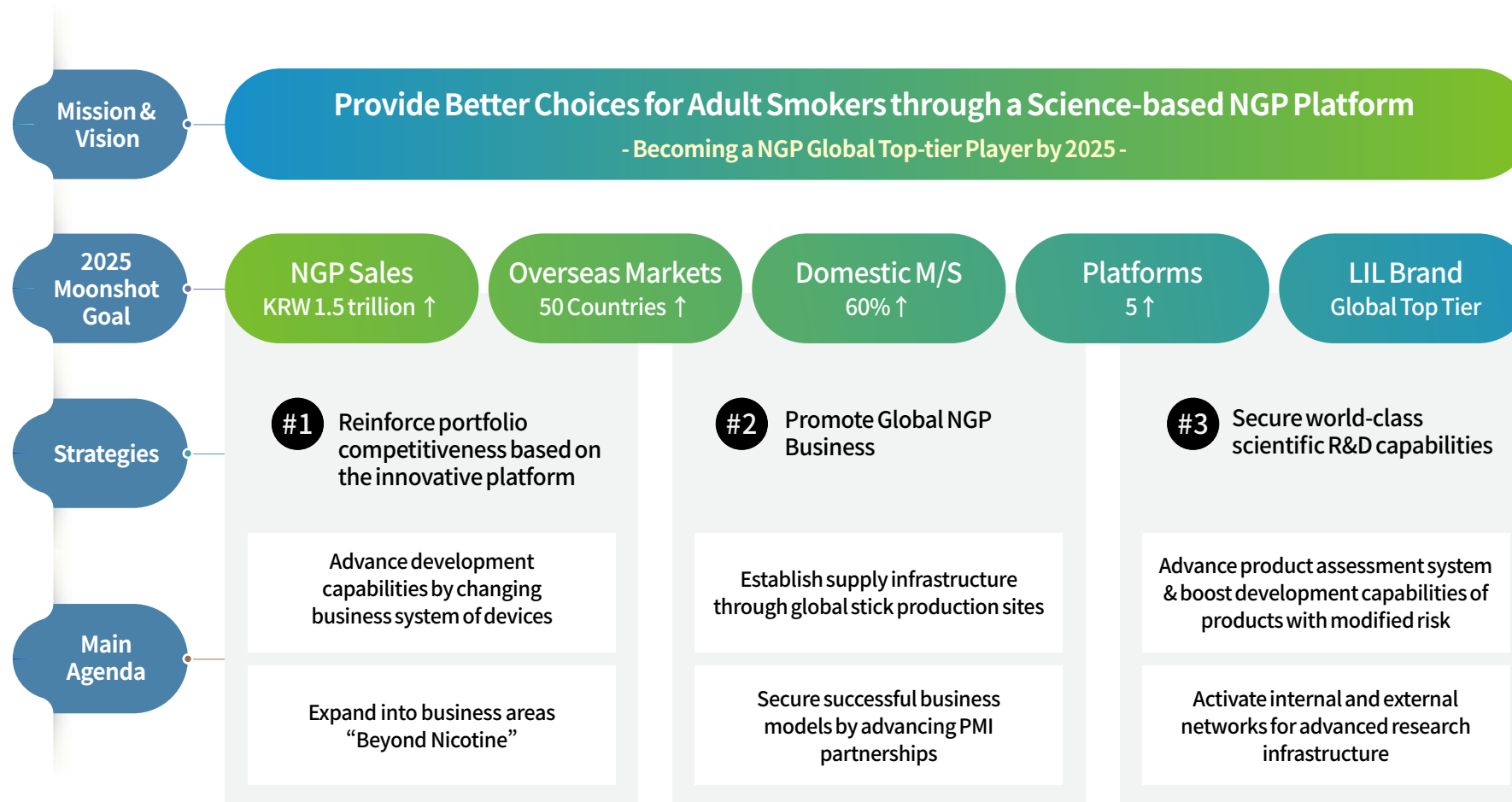
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# NGP(NEXT GENERATION PRODUCTS)

Accelerating global business based on scientific capabilities and innovative platforms

## 2025 NGP Business Vision & Strategy

We want to devote our research and capacities 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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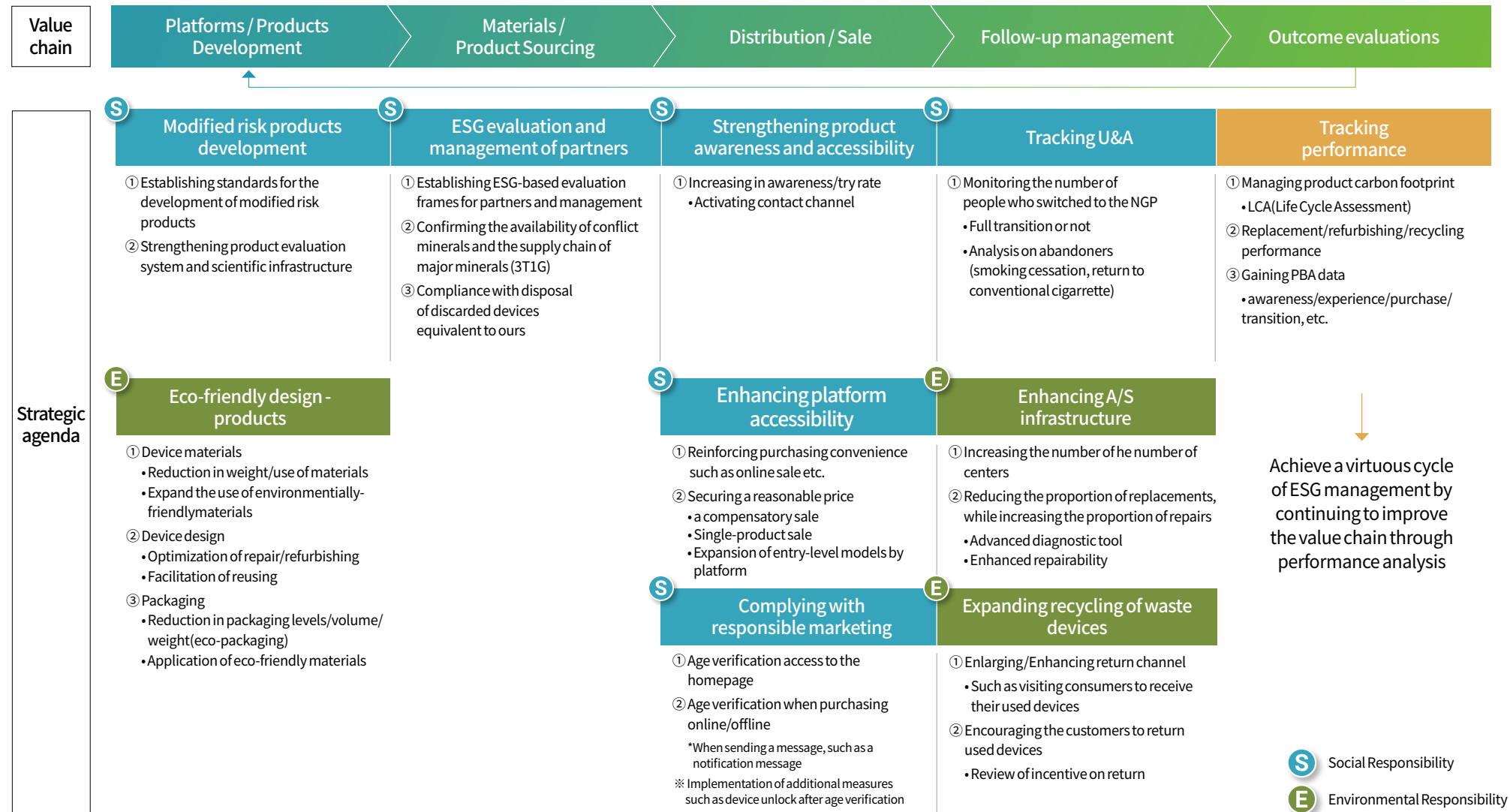
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## Establishing Environment for Sustainable Growth & Increase Competitiveness

KT&G set a vision of becoming a global top tier in the NGP, 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 achieve improvements in these areas.



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

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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.



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

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

Protection of consumer rights

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

Youth Protection

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

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 will 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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Part.2

# 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*

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)

\*SBTi(Science Based Target Initiative)

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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 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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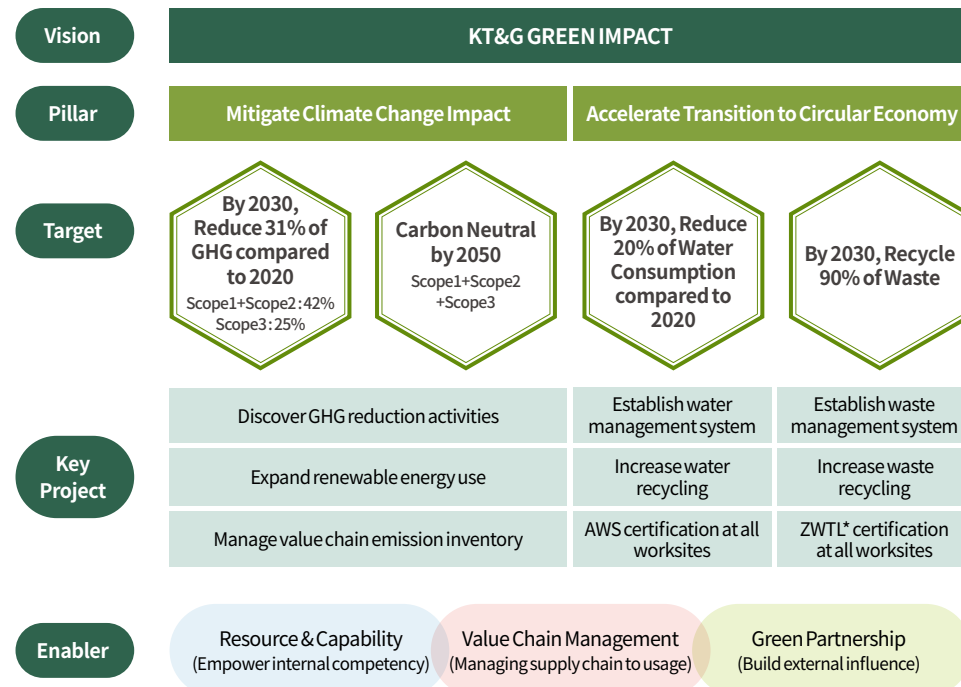
# ENVIRONMENTAL MANAGEMENT VISION SYSTEM

## 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

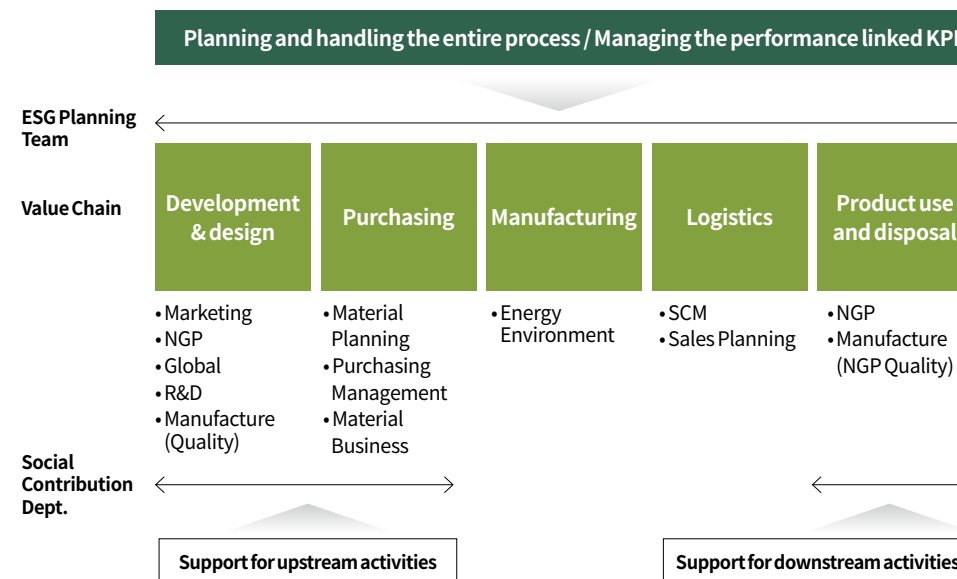
KT&G Environmental Management Policy

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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# RESPONSE TO CLIMATE CHANGE

## Strengthening Greenhouse Gas Management

### Reinforcing the responsibility for GHG emissions

#### Establishment of Science-based GHG Reduction Target

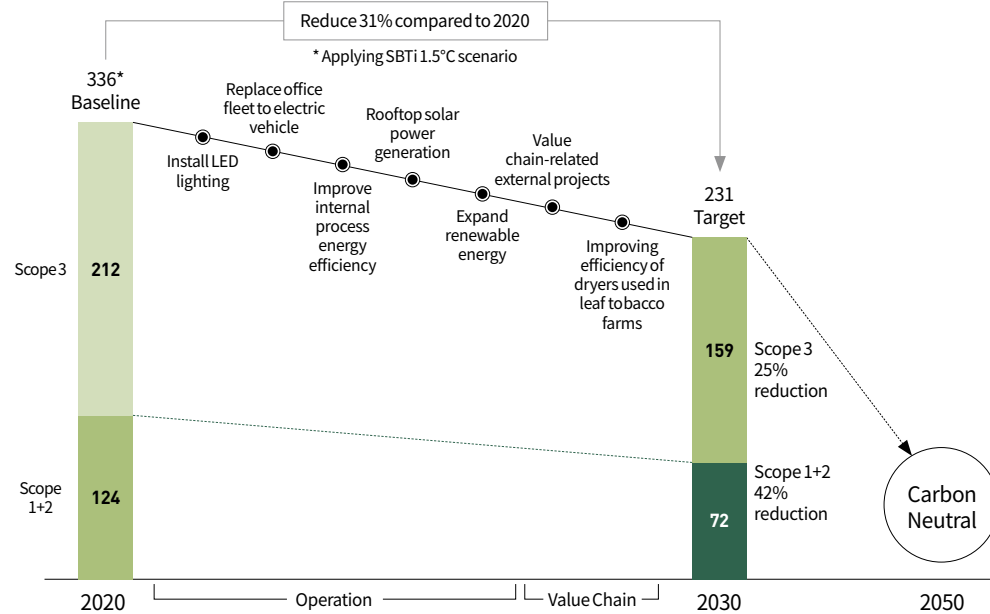
KT&G has established mid-to-long term GHG reduction targets based on the SBT(Science Based Target) and aims to verify SBT within 2022.

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

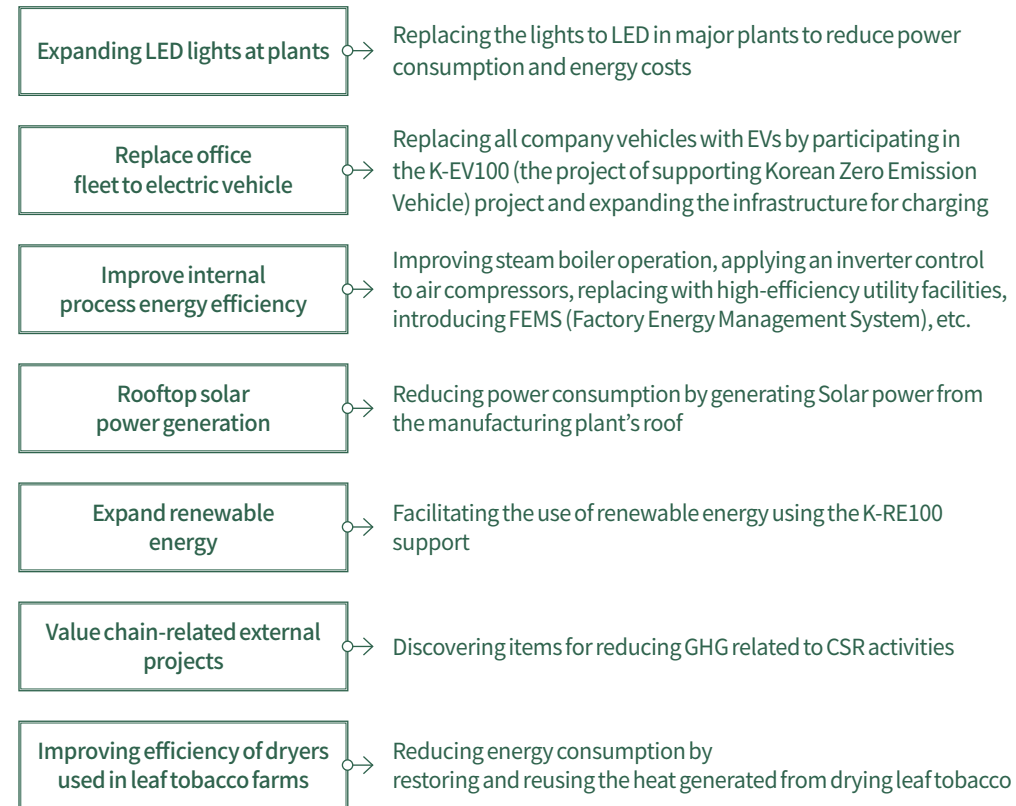
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#### Discovering Major Mid-to-long-term Reduction Measures

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



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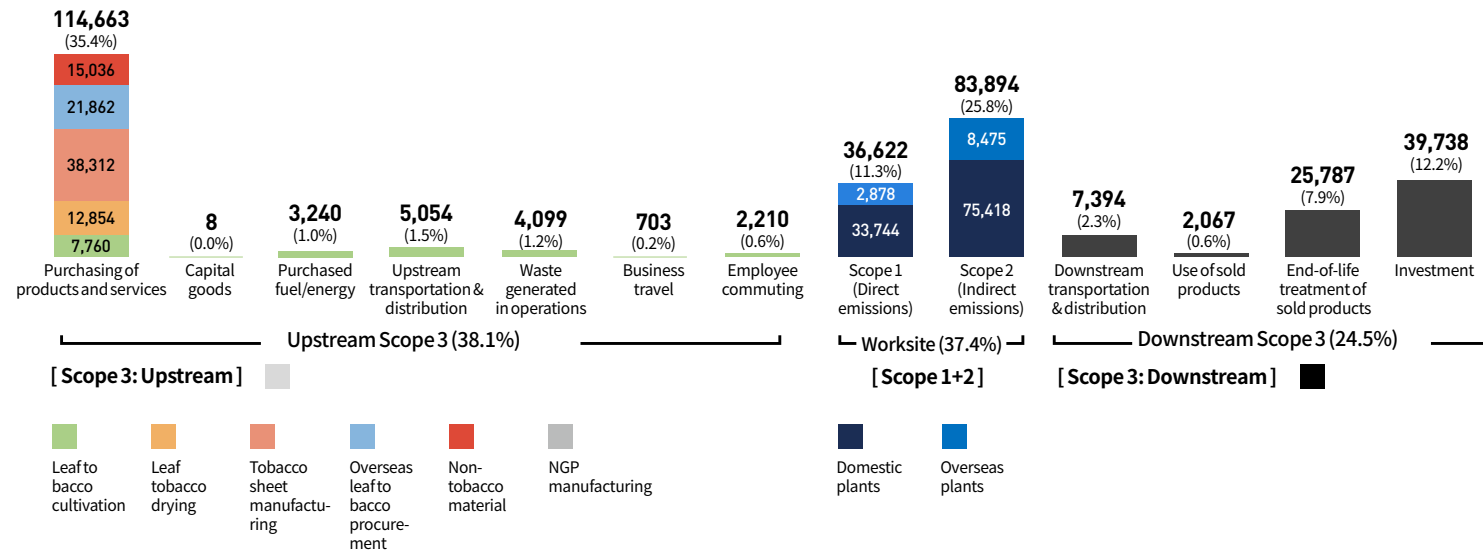
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### Status of GHG Emissions in the Value Chain

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.

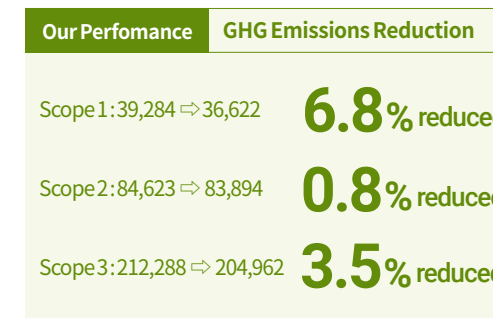


### Advanced Management of GHG Emissions

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.



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## Part.3

# 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

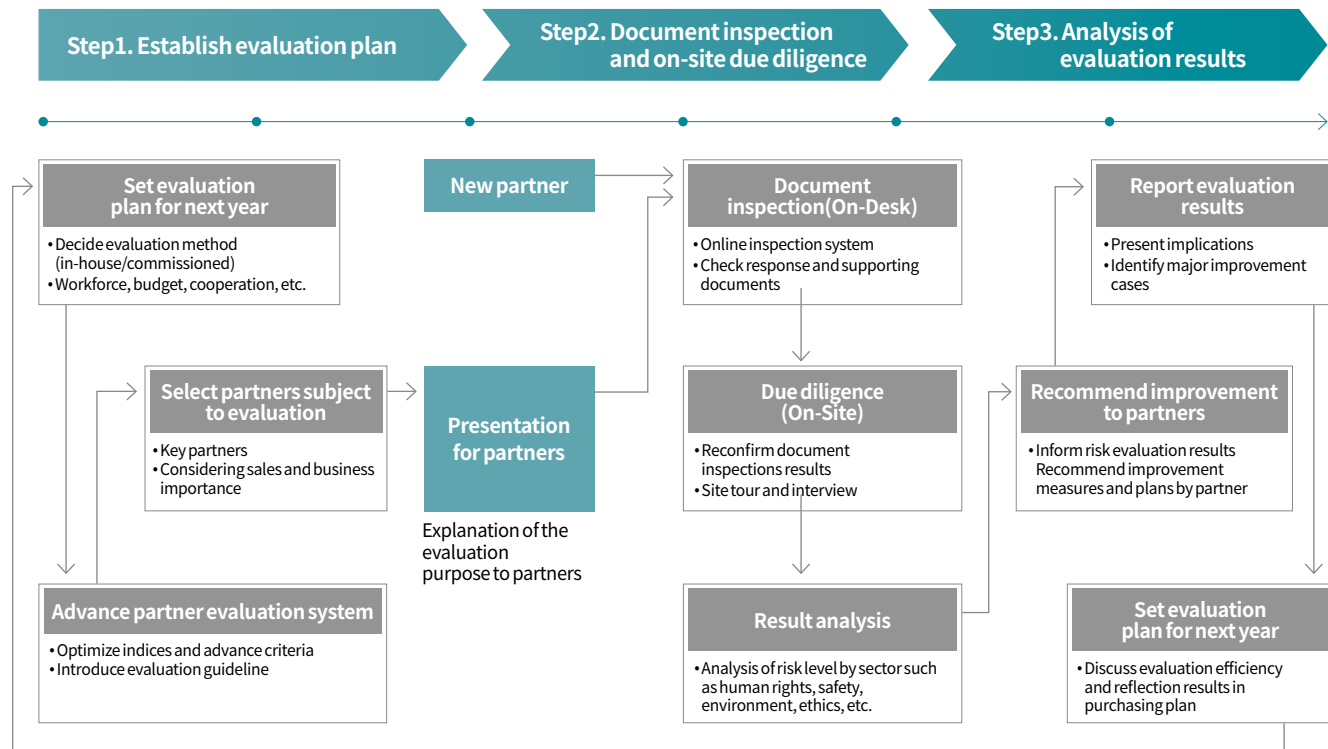
# SUSTAINABILITY IN THE SUPPLY CHAIN

## 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.

Supplier Code of Conduct



### 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"> <li>Credit ratings</li> <li>Financial position</li> <li>Technology &amp; production status</li> </ul>	<ul style="list-style-type: none"> <li>Safety of additives</li> </ul>	<ul style="list-style-type: none"> <li>Physico-chemical evaluation</li> <li>Workability evaluation</li> </ul>	<ul style="list-style-type: none"> <li>ESG-related evaluation</li> <li>Evaluation on quality and production</li> </ul>

### 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
	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	

Additional notes from the diagram:

- Setup of Related policies
- Operation of related programs

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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

### 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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# HUMAN RIGHTS MANAGEMENT

## Human Rights Management Governance

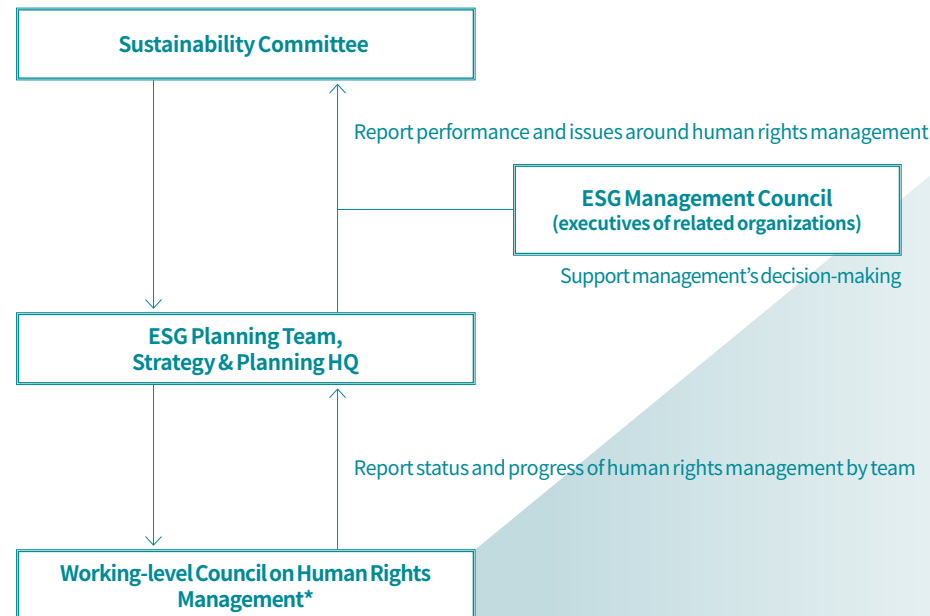


KT&G strives to implement high-level human rights management in all its business activities by building a human rights management system consisting of 'Sustainability Committee-ESG Management Council-Strategy & Planning HQ ESG Planning Team- Working-level Council.' The Sustainability Committee under 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.

## 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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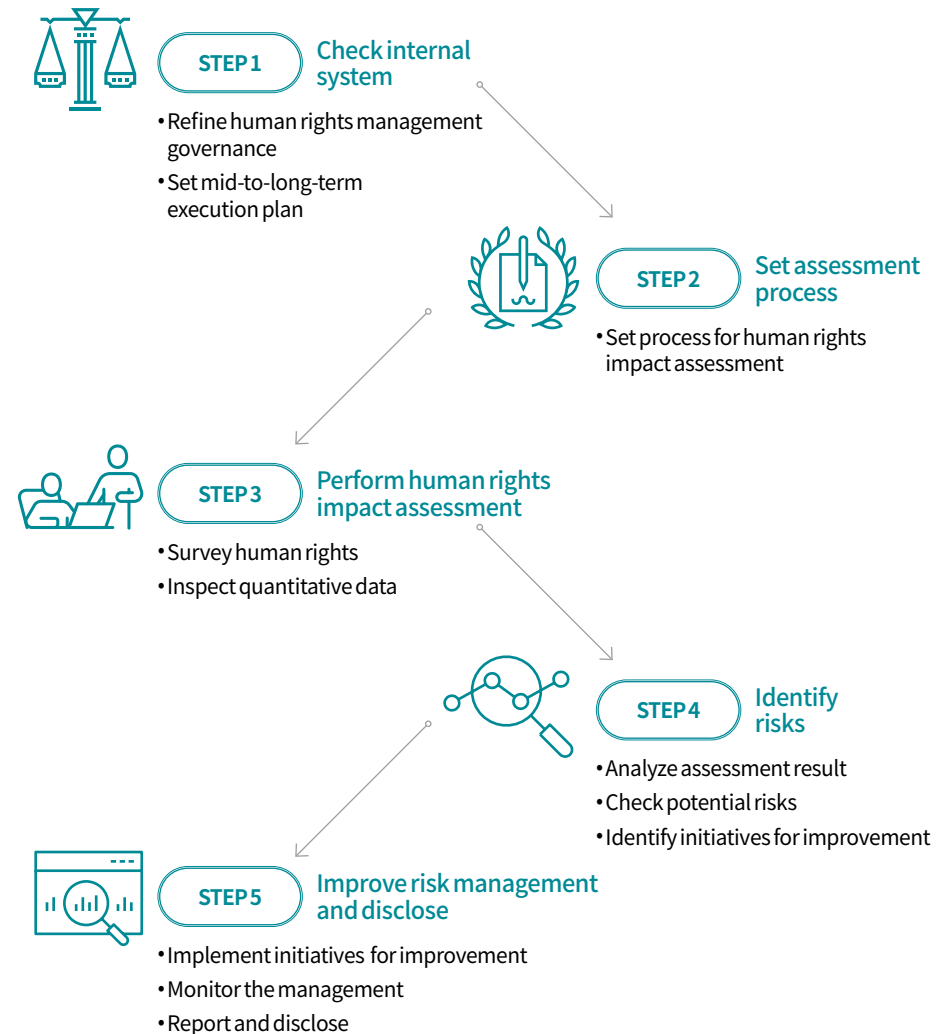
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## Management Framework for Human Rights Management

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

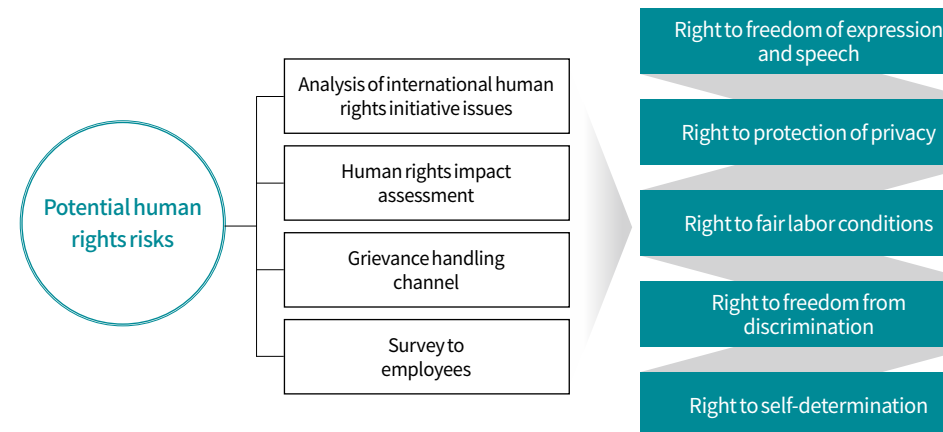
KT&G strives to review the company's human rights policy and management process, identify potential risks, preemptively identify problems, and develop improvement plans. We will make more effort to create a better culture of respecting human rights by setting goals for the human rights issues and continuously 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"> <li>• Evaluate human rights risks</li> <li>• Identify a core issue</li> </ul>	<ul style="list-style-type: none"> <li>• Map out vulnerable groups</li> <li>• Analyze human rights issues by group</li> </ul>	<ul style="list-style-type: none"> <li>• Analyze the current status of risks</li> <li>• Conduct a survey</li> <li>• Handle grievance process channel</li> <li>• Carry out due diligence</li> </ul>	<ul style="list-style-type: none"> <li>• Set a target and objectives</li> <li>• Identify improvement plans and responses</li> </ul>	<ul style="list-style-type: none"> <li>• Report internally</li> <li>• Disclose publicly</li> </ul>

### 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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# 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

### 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.

### Equal Salary Policy Certification



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.

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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.



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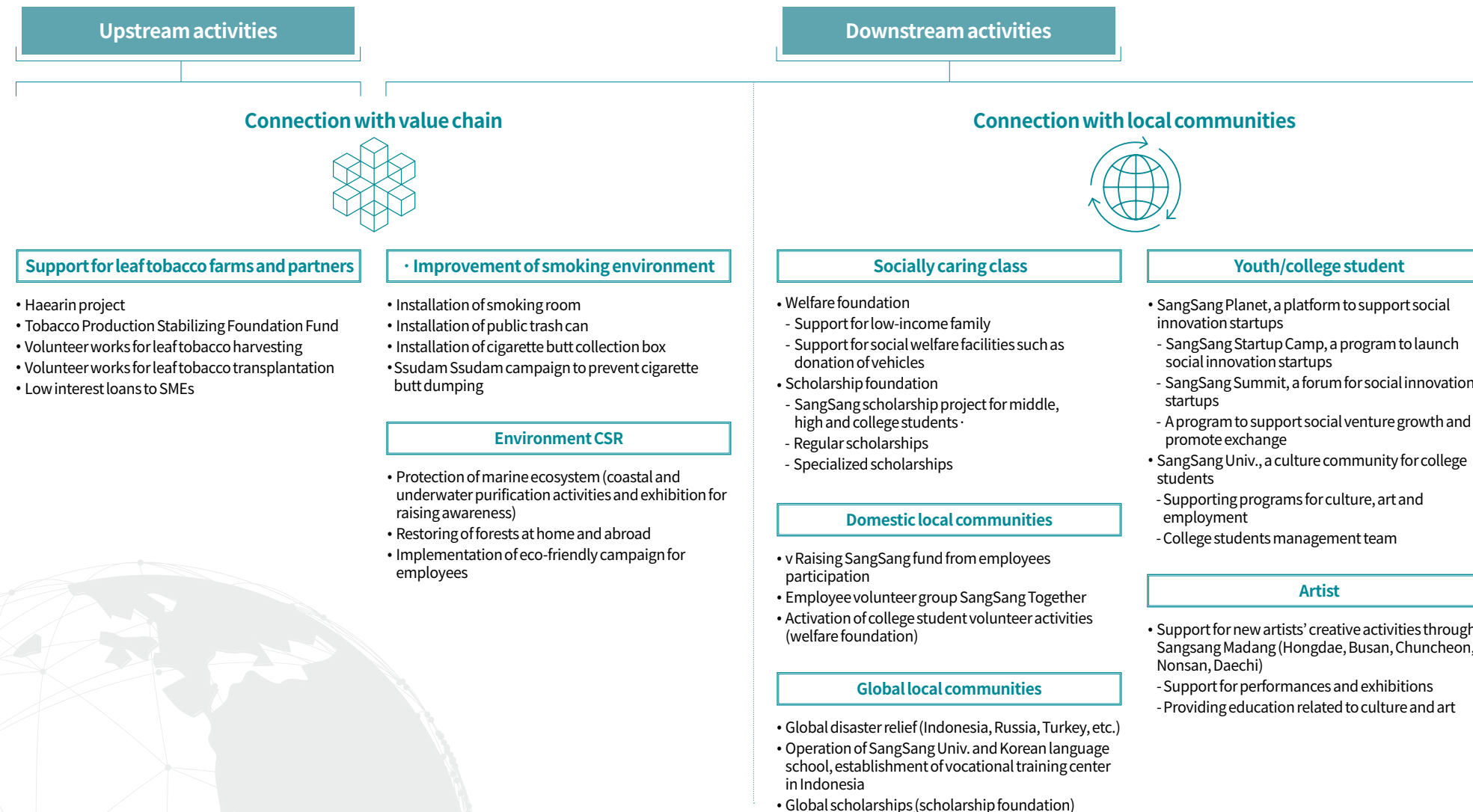
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# SOCIAL CONTRIBUTION

## 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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# 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 minimalium	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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## 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.

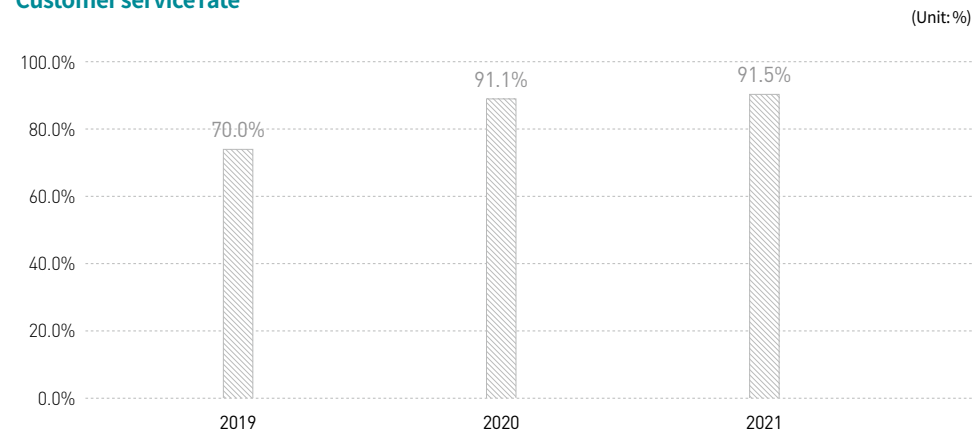
### Customer Service Representatives Capacity Building and Customer Satisfaction Survey

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



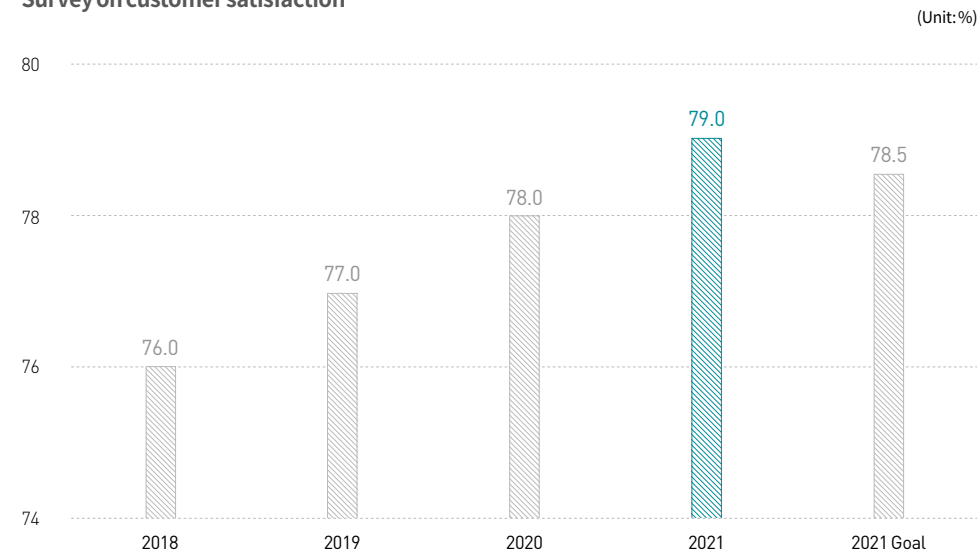
### Customer Satisfaction Management Performance

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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Human Rights Management

Diversity and Inclusivity

Safety and Health in Workplace

Social Contribution

Customer Relationship Management

### ADVANCING GOVERNANCE AND STRENGTHENING EXECUTION CAPABILITY

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## Part.4

# 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.

Strengthening

*ESG KPI*

for All Group Companies

Regulated the

*‘KT&G Group Code of Conduct’*

Conducted

*Compliance Officer system*

in global workplace

Regulated

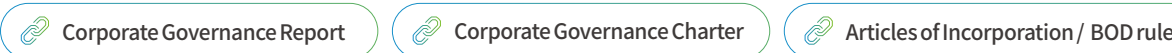
*KT&G Management System*

# CORPORATE GOVERNANCE

## Sound Corporate Governance

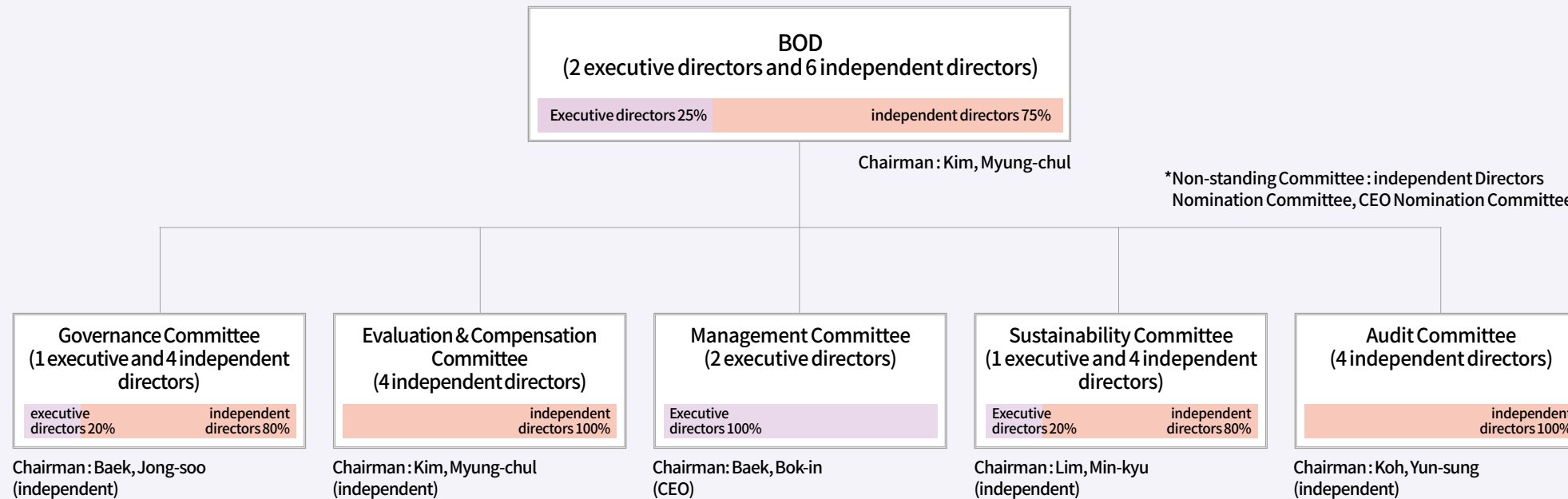
### Board Composition

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.



### BOD organization

\*As of April 19 2022, Standing Committee



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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

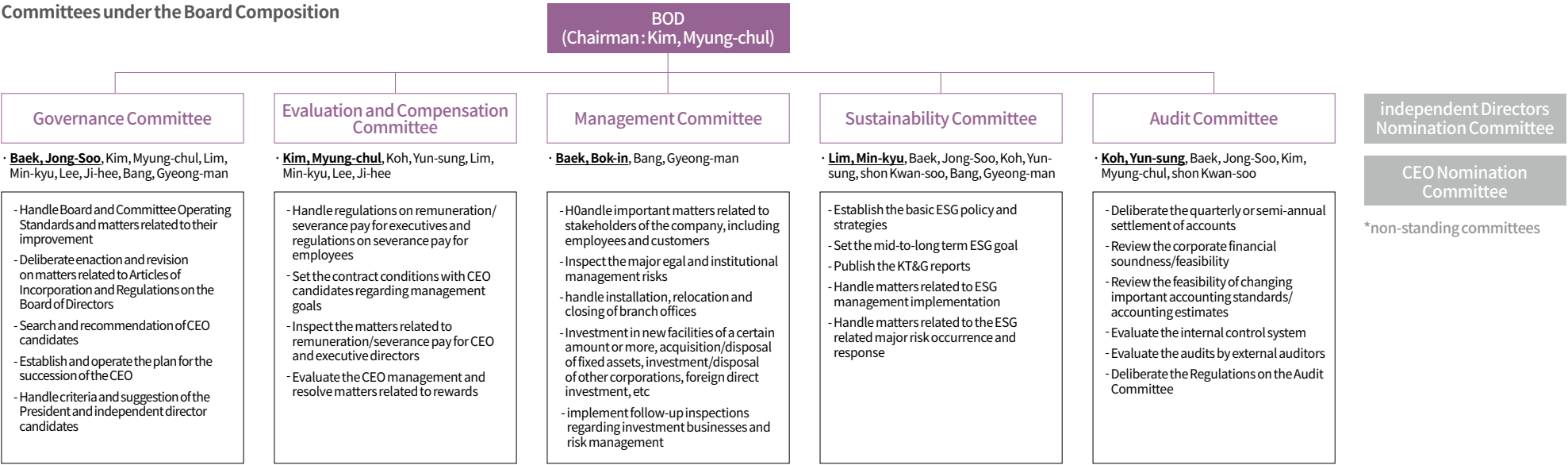
• As of 2021, the average incumbency of Board of Directors in KT&G is 2.1 years and independent directors cannot work for more than 6 years according to Korea’s Commercial Act (Article 34-5 of Commercial Act).  
• Directors are not allowed to hold an additional position according to Article 542-8 of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

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Committees under the Board Composition



# 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 Group Code of Conduct

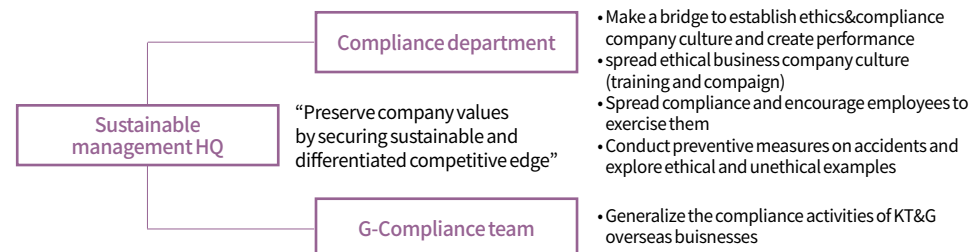
KT&G regulated a new 'KT&G Code of Conduct' reflecting the global-standard ethical values as the ESG business becomes more important and global businesses are expanded. A newly established 'KT&G Code of Conduct' is applied to KT&G and KT&G Group, including all domestic and overseas subsidiaries. The 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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# 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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Part.5

## 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.

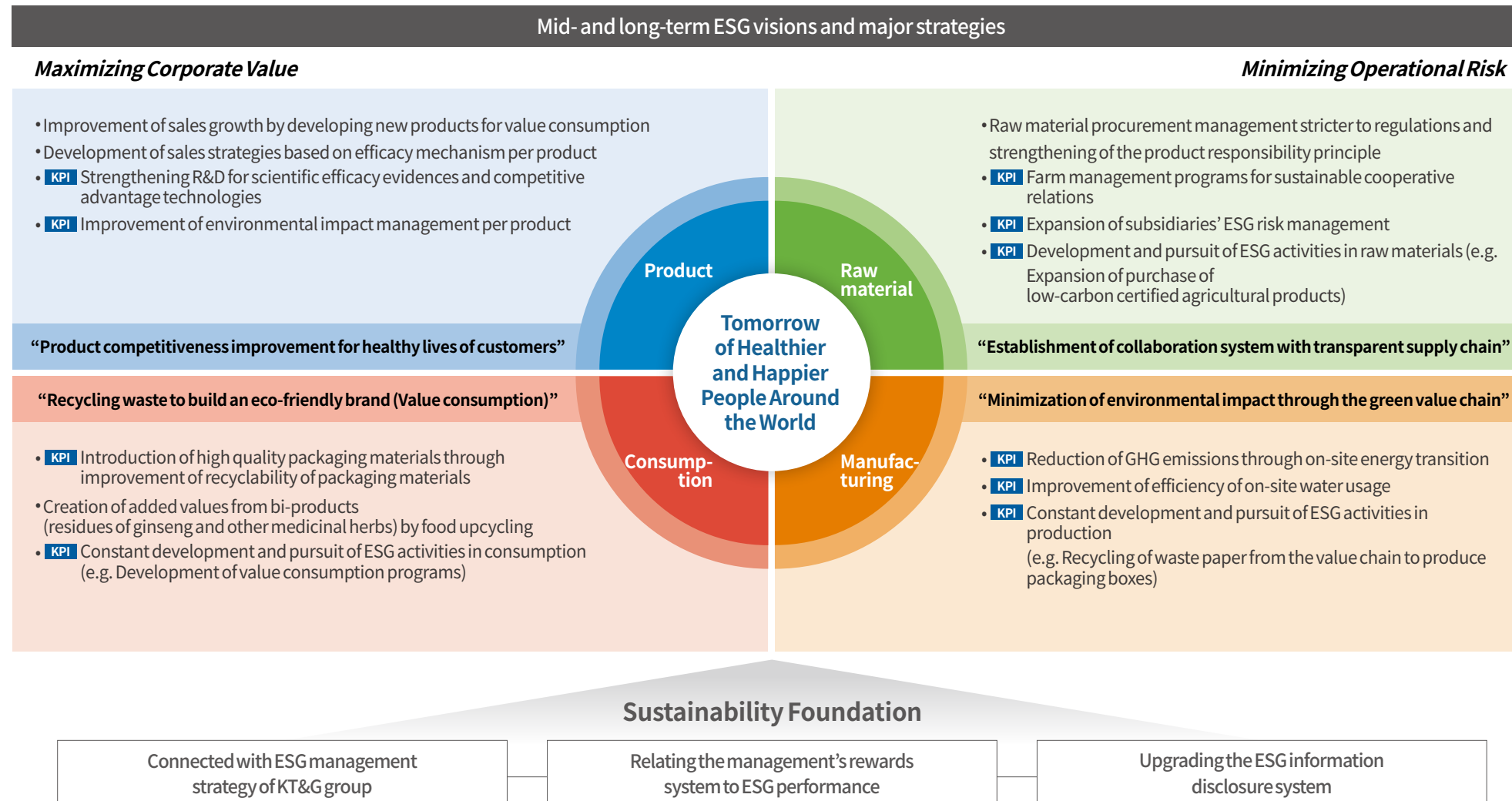


# SUBSIDIARIES' SUSTAINABILITY MANAGEMENT

## 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"> <li>• Farm management program</li> </ul>	<ul style="list-style-type: none"> <li>• Farm management program (SGP<sup>1)</sup>) based on sustainable cooperative relations</li> </ul>
	<ul style="list-style-type: none"> <li>• Suppliers' ESG risk management</li> </ul>	<ul style="list-style-type: none"> <li>• 100% ESG evaluations on major raw material suppliers (27 companies) and OEM companies</li> </ul>
 Product	<ul style="list-style-type: none"> <li>• R&amp;D for product competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D Investment for product innovation and marketing capabilities development</li> </ul>
	<ul style="list-style-type: none"> <li>• Management of products' environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of all processes of major products (e.g. Korean Red Ginseng, etc.) (From 2023)</li> <li>• Value chain emissions (Scope 3) inventory management</li> </ul>
 Manufacturing	<ul style="list-style-type: none"> <li>• GHG emissions reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Carbon neutrality at all business sites in 2050</li> <li>- GHG emissions reduction by 25% compared to 2020 levels by 2030</li> <li>- Expansion of renewable energy use at business sites</li> </ul>
	<ul style="list-style-type: none"> <li>• Water usage efficiency improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction by 20% compared to the 2020 water consumption by 2030</li> </ul>
 Consumption	<ul style="list-style-type: none"> <li>• Improvement of packaging material recyclability</li> </ul>	<ul style="list-style-type: none"> <li>• Step-by-step activities to reduce environmental impact of packaging materials and introduction of eco-friendly high-quality packaging materials</li> <li>- Establishment and application of packaging material R&amp;D guidelines</li> <li>- 100% transition to eco-friendly bags (by 2023)</li> <li>- R&amp;D to use paper without lamination and develop alternatives to plastic pouches in the mid- and long-term</li> </ul>

● KGC-specific tasks ● Group-wide tasks

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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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